

**Competitive Viability, Accountability and
Record Keeping:**

**A Theoretical and Empirical Exploration Using A
Case Study of Jamaican Commercial Bank Failures**

By

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Abstract of Thesis

This study seeks to explore the relationships among competitive viability, accountability and record keeping in private sector entities. These relationships are explored both theoretically and empirically using a case study of Jamaican commercial bank failures. The study builds upon earlier research on the relationship between record keeping and public sector reform initiatives in Africa, which found that poor record keeping has undermined the success of these initiatives. The study aims to show how poor record keeping similarly can undermine the competitive viability of private sector entities and thereby economic development initiatives dependent on the private sector. The study employs a Grounded Theory-based methodology using data on Jamaican commercial bank failures to develop a theoretical argument for linkages among competitive viability, accountability and record keeping. The study argues that effective records accountabilities and controls are critical to the operation of accountability systems that provide the basis for internal control and sound decision-making in private sector entities. When accountability systems are weakened because of ineffective record keeping, management is unable to access information needed to maintain operational control and make sound decisions. This leaves the business weakened and vulnerable to collapse. The study illustrates this dynamic with reference to the failure of several Jamaican commercial banks, showing how an absence of effective records controls undermined the quality and availability of accounting and management information in these banks which, in turn, weakened the systems of accountability that the banks' directors, managers and supervisors relied upon to manage and control the banks'

balance sheets and business risks. The study concludes by drawing out general management lessons from the experience of the failed banks and offering policies and strategies to strengthen records accountabilities and controls.

Preface

It is now axiomatic to say that we live in an information economy and that knowledge is a strategic resource. Nevertheless, the causes of information related problems within organisations often are misunderstood, being based more on received wisdom than empirical evidence.

In my over fifteen years of experience as a professional archivist/records manager working in a wide range of organisations in several different countries, I have seen many a case of mistaken diagnosis of information problems. Often the prescriptions for these problems are equally misdirected – costly technological solutions and corporate reorganisations, for example – that fail to solve the underlying problem because of the original misdiagnosis.

Many times, through close involvement in specific cases, I have been able to see that an organisation's information related problems originate with poor record keeping practices and thus how, by introducing better record keeping systems and controls, the problems could be solved. It also has been possible for me to see the deleterious effects on corporate bottom lines of unresolved information problems or ineffective solutions.

In essence, these professional observations are what initially interested me in conducting a study on the linkages among competitive viability, accountability and record keeping. I wanted to explore a situation in which corporate competitive viability was at issue. This would allow me to determine if poor record keeping could

be implicated and, in this way, to gather some hard evidence to support or nullify my professional working hypotheses about the relationships among these three phenomena. The Jamaican financial crisis and the collapse of several indigenous commercial banks in the 1990s presented me with an opportunity to explore these ideas.

In addition, through my consulting work for the International Records Management Trust, I have been involved in several public sector reform initiatives. My work on behalf of the Trust has entailed improving record keeping systems and controls to enable governments to operate more efficiently and effectively in support of good governance and economic development. As a result of this work, I began to see linkages between the role of good record keeping in promoting efficiency and effectiveness in government administration and its role in the efficient and effective operation of private sector entities. I also saw that development agencies and governments increasingly viewed the private sector as an engine of economic growth and surmised that, if the private sector suffered from the same record keeping induced information problems as found in the public sector, economic growth and development could be thwarted. Again, I wanted an opportunity to explore these ideas in a more systematic way.

The opportunity to do so arose when the Jamaican financial crisis occurred. At the time I was University Archivist for the University of the West Indies and based in Kingston, Jamaica. It occurred to me, as I watched the financial crisis unfold, that these bank collapses offered a unique opportunity to study the relationships among competitive viability, accountability and record keeping. Thus was born this study.

No work of this nature is ever really the product of a single individual, however.

There are many people without whom this study would never have been completed, and to whom I therefore owe a debt of gratitude.

First, I would like to thank my thesis supervisors at University College London: Miss Elizabeth Shepherd, Professor John McIlwaine and Mr. Geoffrey Yeo. It is an understatement to say that their guidance throughout the researching and writing process was invaluable.

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I would also like to extend my appreciation to Shirley Tyndall, Financial Secretary, Ministry of Finance and Planning, Government of Jamaica, and Patrick Hylton, Managing Director, Financial Sector Adjustment Company (FINSAC) Limited.

Without their interest and support of my research topic and their willingness to open doors for me this study simply would not have been possible. Let me also take this opportunity to thank the many individuals in Jamaica and the UK who, for reasons of confidentiality, cannot be named but who took the time to meet with me and share their experiences and ideas.

Many individuals helped me in particular ways throughout the course of this study. Dr. Odette Parry must be acknowledged for sharing her methodological knowledge as an experienced researcher and for recommending the QSR*NUDIST software. I also thank Dr. Phillipe Aghion, Professor of Economics, Harvard University, and Dr. Wilberne Persaud, Lecturer in Economics at the University of the West Indies, both of whom shared ideas and pointed me in the direction of valuable sources. I also thank Dr. Persaud for his careful reading of several draft chapters of this thesis, which led to marked improvements in both content and style. Mr. Robert Till also assisted in improving this thesis by bringing his over 23 years of experience in the banking sector in Australia and S.E. Asia to the review of several draft chapters. Mr. Frank Coffey of Barclay's Records Services must be acknowledged, as well, for his valuable comments on Appendix 8. Thanks also go to archival colleagues Dr. Tom Nesmith and Mr. Verne Harris for inspiring and discussing ideas related to this study. Mr. Edwin Green (Archivist), Miss Sara Kinsey (Deputy Archivist) and Miss Rachel Huskinson (Assistant Archivist) at the HSBC Archives; Mr. Henry Gillet (Archivist) and Miss Sarah Millard (Deputy Archivist) at the Bank of England Archives; Mr. John Orbell (Archivist) and Mr. Mark Emmerson (Deputy Records Manager) ING Barings; and Mr. Phil Cullingworth of Barclay's Records Services must all be thanked for sharing archival expertise and knowledge of record keeping in a banking environment. Ms. Kath Begley (Librarian) and Mr. Howard Picton (Deputy Manager) at the Bank of England Information Centre and Miss Cora Robinson (Librarian) at the Bank of Jamaica also most kindly assisted me with locating and copying documents related to my study. In addition, Miss Patricia Barrett must be thanked profusely for

diligently undertaking many hours of administrative support work during the course of my research, in particular the painstaking transcription of taped interviews.

I must also acknowledge the support of two institutions, namely, the University of the West Indies for agreeing to give me leave for study purposes and the School of Graduate Studies, University College London, for financial support enabling me to acquire the QSR*NUDIST qualitative research software used in the preparation of this study.

Every research student needs support and friendship during what can seem a very long “row to hoe.” My thanks in this regard go to archival colleagues Laura Millar, Tom Nesmith, David Leonard, Brian Speirs, Terry Cook, Verne Harris, JoAnn Georges; Sonia Black; Sharon-Alexander Gooding; and the whole IRMT “crew”. I must also thank my fellow research students Nancy McGovern and Ana da Cunha for camaraderie and encouragement throughout the research and writing of this thesis. Odette Parry, Gareth Wyn Jones, Florence and Andrew Pearson, Lynn Coleman, Fiona Gowen, David Morrison, Martin Batton, and Noella Costabile must also be thanked for their support and friendship. I also thank Lucy Gildersleeves for her kindness and for providing the roof over my head during my stays in London. Last but certainly not least, I thank my family – Patrick, Carolyn, Charlotte and Trish Kingsford - for both emotional and financial sustenance.

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Chapter One: Introduction

Background to the Study

One of the aims of science is to discover relationships among phenomena previously thought to be unconnected. It is in that spirit that this study aims to establish the linkages among competitive viability, accountability and record keeping. It also has a normative aim, which is to draw out lessons in order to create better policy and strategy for the management of organisational records and information.

The existence of a causal chain of linkages among competitive viability, accountability and record keeping may seem a preposterous proposition given typical conceptualisations of record keeping as a low level clerical function usually associated with the mundane task of filing. After all, how could bad filing possibly be responsible for the failure of a business? However, this study argues that the relationship is not as preposterous as at first glance it may seem.

The study seeks to illustrate linkages among competitive viability, accountability and record keeping both theoretically and empirically by drawing upon data from Jamaican commercial bank failures. For the past several years the Jamaican financial sector has been in a state of crisis. Like dominoes, that favourite Jamaican pastime, one after another banks and other financial institutions have suffered collapse or near collapse, starting with the demise of the Blaise financial entities in 1995. Sad as this situation has been for the country, the collapse of all of Jamaica's indigenous commercial banks, save one very small one, has afforded a unique opportunity to explore the relationships among competitive viability, accountability and record keeping.

Jamaica presents an ideal site for a case study on the relationships among these three phenomena because of the availability of data on both healthy and failed commercial banks operating under the same external conditions. As such, the events of the Jamaican financial crisis offer a mini-laboratory from which to see how record keeping may have been implicated in weaknesses that led to the collapse of several banks. The assumption is that knowledge gained from a study of local experience and conditions in Jamaica can be extracted to learn something of value that, hopefully, will not only help strengthen the Jamaican financial sector but also strengthen financial sectors in other countries, and perhaps even other types of business enterprises.

The collapse of the Jamaican financial sector has had devastating effects on the local economy and society. Against the background of human misery brought on by hard

economic realities arising from the financial crisis, Jamaican people have sought answers to why the financial sector collapse occurred. Commentators at the time have tended to give two reasons. Members and supporters of the opposition Jamaica Labour Party (JLP) have pointed their fingers at the Government of Jamaica's macroeconomic policy. The Government, on the other hand, has pointed a finger of blame squarely at the owners and managers of the failed financial institutions, citing management incompetence and dishonesty as the root cause of the sector's collapse. The Government's arguments suggest that the collapse of so many Jamaican banks was the result of a crisis of accountability in banking management.

This study examines the Government's claim that internal management practices were at the root of the Jamaican financial sector's problems. That being said, it would be difficult, and perhaps even futile, to attempt to identify a single cause of the failure of so many Jamaican banks. Banking failures take place in the context of complex financial systems in which many variables interact in different ways. Although analysts agree that internal management practices are an important factor in bank failures, macroeconomic instability and banking regulation are also important potential causes. Rather than attempt to draw a definitive conclusion about the causes of problems in the Jamaican banking sector, this study explores the relationship between two areas of internal management in Jamaican commercial banks, namely, record keeping and accountability, and their relationship to the competitive viability of the banks. The basic argument being advanced is that both deliberately and unintentionally poor record keeping by directors, managers and

employees of the failed Jamaican commercial banks contributed to a lack of accountability in and on the part of the banks. Lack of accountability, in turn, led to poor risk management, facilitated fraudulent activities, and prevented proper tracking of the banks' financial positions. As a result, these banks ultimately became weakened and vulnerable to collapse.

Purpose of the Study

Broadly speaking, this study aims to provide greater insight into the nature of organisational information related problems. More specifically, however, the purpose of this study is twofold. First, it aims to establish that there exists a causal chain of relationships among competitive viability, accountability and record keeping in the Jamaican commercial banking sector in particular and in commercial enterprises in general. The study aims to show, using a case study of Jamaican commercial banking, how record keeping affects the ability of commercial enterprises and their regulators to obtain information required as inputs for the effective operation of accountability systems and, in turn, how accountability systems support internal control and effective decision making in an enterprise, both of which this study maintains are critical to continuing competitive viability. The second aim of the study is to draw out management lessons from the experiences of failed Jamaican commercial banks that also may be applicable to other banks and commercial enterprises and, on the basis of those management lessons, to recommend record keeping policies and strategies that support the effective operation of

accountability systems and thereby support competitive viability.

Objectives of the Study

This case study of the Jamaican commercial banking sector is used to explore the relationships among competitive viability, accountability and record keeping in commercial enterprises. The study critically examines two main areas of the Jamaican commercial banking sector:

- Banking operations, specifically record keeping and accountability systems in selected Jamaican commercial banks
- Banking supervision and rehabilitation, specifically the Bank of Jamaica's use of records in the fulfilment of its supervisory function and the Financial Sector Adjustment Company (FINSAC) Limited's use of records in the intervention and rehabilitation of failed Jamaican commercial banks

These areas are examined in order to gather empirical data to establish that the effective operation of the banks' own internal and the Bank of Jamaica's systems of accountability were dependent on the availability of quality information, which, in turn, requires banks to ensure proper record keeping practices.

The study has three main objectives:

- To define the relationships among record keeping, accountability and competitive viability in commercial banking

- To establish clearly that accountability systems cannot function effectively without deliberate and systematic accountabilities and controls over record keeping processes
- To recommend best practices for managing records in support of accountability systems.

Limitations of the Study

This study does not aim to explain what caused the collapse of the Jamaican financial sector. Rather, its purpose is to show how record keeping is implicated as a factor contributing to the dynamics of the banks' failures. The argument is that weak record keeping contributes to information failures that undermine the effective operation of accountability systems needed to monitor and control risk exposure, bank balance sheets and fraud. When accountability systems fail, competitive viability is compromised and failure can occur.

In making the case that effective accountability and control of record keeping processes is a precondition for the availability of the information required by managers, directors, shareholders and regulators to support internal control and sound decision-making, the study does not focus on a detailed evaluation of the effectiveness of Jamaican commercial banks' management or supervisory practices and their use of information. To undertake such an evaluation would have been outside this researcher's area of expertise. Rather, the evaluation of the banks' systems focuses on the effectiveness of their record keeping

practices in delivering the information required to support existing management and supervisory accountabilities and controls.

In undertaking this evaluation, the need for empirical detail demanded that the research be broadly case study based. The depth needed for the case study approach restricted the number of sites that could be covered. Both the case study approach and the study's focus on only the Jamaican experience raise a question about the degree to which generalisations can be made from the empirical data. In this regard, the following observation by B.H. Spicer about case study research is relevant:

. . . the objective of explanatory case research is not to draw inferences to some larger population based on sample evidence, but rather to generalize back to theory. In this sense generalization from case studies proceeds in a way that is analogous to generalization from experiments. An attempt is made to match the pattern of observation made in the case back to those suggested by theory. Replication may be sought by studying sets of similar and dissimilar cases. If these additional cases yield patterns of evidence which match back to theoretical patterns then it is possible to build support for the generalizability of the theory.¹

Thus, it is argued that some generalisations to other banks and other types of commercial enterprises will be possible from the results of this case study.

The case study research itself was limited by such practical issues as gaining access to Jamaican commercial banks willing to participate in the study, to supervisory officials at the Bank of Jamaica and to FINSAC officials. Within each of the commercial banks, it was not possible to achieve an identical level of access due primarily to differences in the management structures of the banks (eg, in a foreign-owned bank an interview with a non-

executive director was not possible as the bank has no local board of directors) and to the availability of persons filling specific positions within the management structure at the time of the field research. Only limited access was possible to one of the viable commercial banks, as permission was denied to conduct interviews with staff of the bank's Jamaican operations. Data, therefore, were drawn from interviews with staff of the foreign parent company of the bank. Although the research plan included conducting interviews with Bank of Jamaica supervisory authorities, this proved to be impossible. Instead, the Bank agreed only to respond in writing to a limited number of questions (see Appendix 1). In light of the Bank of Jamaica's refusal to agree to interviews and to release relevant information, the discussion on the relationship between record keeping and Bank of Jamaica supervisory practices is not as comprehensive as it might have been if the interviews had been granted.

Significance of the Study

This study builds upon and extends research on the relationships among economic development through good governance, public sector reform initiatives in Africa and record keeping, discussed in detail in chapter four of this study. The results of research by Justus Wamukoya and Pino Akotia on the relationship between record keeping and economic development through good governance in Africa show how governments have been unable to achieve the accountability needed to properly manage or reform their

affairs when information is not available or easily accessible, a problem which these researchers attribute to poor record keeping.² The authors of these studies show how when records are not controlled properly, vital information needed for decision-making, the detection of fraud, and the protection of citizens' rights is unavailable. They also show how donor support to governments has tended to neglect or worsen records control systems in the public sector, thereby deepening government information problems. Records and their management have remained a neglected area of public sector reform programmes despite the fact that realisation of reform programme objectives depends on efficient record keeping systems, often beyond what existing systems are able to provide. Donors have taken for granted the availability of accurate and reliable records. Further, donors' insistence on running parallel systems for their own projects and computerising without first ensuring that source data are complete and reliable has undermined the recording and reporting systems of recipient governments.³ The authors of these studies make a strong case that good record keeping is necessary to build accountability systems that strengthen governance in developing countries.

This study aims to make a contribution by showing how the relationships among competitive viability, accountability and record keeping of private sector enterprises mirror those among economic development through good governance, accountability and record keeping as discussed by Wamukoya and Akotia. In essence, it is a project to insert record keeping into ideas about the dynamics of corporate failure in general and commercial bank failure in particular. This will be an important contribution given that

banks and other commercial enterprises are essential to both national and international economic processes, particularly in developing country contexts.

It might not have been so important to understand the dynamics of bank failure even just over a decade ago when only a few countries in Latin America had experienced any major collapses; now, however, bank failure has become a global epidemic. According to Morris Goldstein, 67 banking systems have encountered crises since 1980, and 52 of these have been in developing countries.⁴ All of these collapses have cost taxpayers dearly.⁵ As Gerard Caprio has noted, “When large fiscal bills have to be repaid, they can destabilize the best laid macroeconomic programs . . .” which clearly poses economic challenges for developed and developing countries alike and places banking crises high on the public policy agenda.⁶

Understanding and preventing bank failures is particularly important in the context of developing countries, like Jamaica, for two reasons. First, development policies and strategies now aim at stimulating economic growth by reducing the overall size of the public sector and its involvement in the economy while simultaneously increasing the role of the private sector in economic development. The financial sector plays an important role in these economic development plans as a mechanism for the allocation of capital needed to support local business enterprise and foster economic growth. The World Bank *World Development Report* for 1998/99 states that research confirms that countries with more developed financial institutions grow faster, and those with weak

ones are more likely to experience financial crises. Second, in lower income countries, “almost all financial intermediation . . . is accomplished through the banking system.”⁷ A weak banking system in developing countries can derail plans to achieve macroeconomic stability. It is thus critical that in lower income countries banks, as the primary financial intermediaries, remain competitively viable.⁸ In recognition of this fact the International Monetary Fund has now placed banking issues on its macroeconomic adjustment programme agenda.⁹

Current analyses of banking failures recognise the role of imperfect information in markets as being a factor in bank collapses.¹⁰ Nevertheless, the focus of these theories is on the absence of good quality information in credit markets (ie, lack of creditor information about borrowers’ ability to repay loans) and in bank runs (ie, depositors’ lack of information about the safety of their deposits and their ability to make withdrawals on demand). Little attention has been given to imperfect information or information gaps within the banks themselves as being a factor in bank failures. Moreover, there has been no explicit recognition of a link between the problem of imperfect information and banks’ internal record keeping practices. The aim of this study, therefore, is to present evidence to support the view that organisational record keeping practices can be a significant factor in internal information gaps that undermine accountability and internal control and thereby contribute to the dynamics of bank collapses.

Hypothesis and Analytical Framework

Owing to the qualitative, Grounded Theory-based research methodology used in this study (discussed more fully in the following section), the study did not begin with a set of research hypotheses to be proven, as would be the usual procedure in a quantitative research project. Rather, the study began with a general proposition - that there was a causal chain of relationships among record keeping, accountability and competitive viability - and a set of more specific assumptions and ideas reflecting these relationships. These assumptions and ideas derived from literature on record keeping and social accountability and were framed from the perspective of those in the field of banking and banking supervision. As such, it was anticipated that many would be proven false. The assumptions were as follows:

Banking Operations - Records Availability and Use in Fraud Prevention, Risk Management and Assessment of Financial Position

- The necessary information is available to manage risks, prevent fraud and accurately assess a bank's financial position
- Bank shareholders, directors, managers and supervisors know what information they need
- Shareholders, directors, managers and supervisors use records for decision-making, to manage risks, assess their financial position and monitor banking practices
- Banks in good financial standing have better record keeping practices than those that have failed or are in poor financial health
- Banks with foreign connections have access to more information about the importance of good record keeping and good record keeping systems than local banks and therefore have better record keeping practices

- Complete financial transactions can be tracked easily through records (this bears particularly on banks' ability to detect fraud)
- Due to tight regulatory control, banking administrative structure matches the typical "machine bureaucracy" (hierarchical, with highly structured vertical flows of information) and consequently information often reaches the executive level of the organisation too slowly or in too digested a form to be of use
- Internal accountability systems are clearly defined, well-documented and specify the types of records that must be kept to sustain them

Banking Operations - Attitudes to Records Use and Management

- Shareholders, directors and bank managers understand the importance of good information management practices and, in particular, good record keeping in terms of establishing accountability to manage risks, prevent fraud and monitor their financial position
- Keeping records is not an issue as bank managers and employees will automatically want records to be kept that document their actions and decisions
- No special systems need to be put in place to ensure that, once documented, information about actions and decisions is maintained in a retrievable and reliable form
- Attitudes and approaches to accountability and record keeping are the same at all levels of the organisational hierarchy
- Introduction of automated technology, that is more computers, will automatically solve information problems for commercial banks and their regulators
- Useful information is seen as being in automated form, while the term records connotes useful hardcopy papers. Similarly, information management is seen in terms of computerisation and something of value to the strategic position of the organisation, while records management is seen as being primarily to do with filing

Banking Operations - Training of Banking Professionals

- Training of banking professionals influences attitudes and approaches to the use and management of information and records in banking operations
- Training of banking professionals covers management control systems and their relation to information management

Banking Operations - Information and Records Management Practices

- Responsibility and authority for record keeping is clearly designated and documented
- File control and tracking procedures have been articulated and documented
- Guidelines on the creation, maintenance, use and disposition of records have been articulated and documented
- Correspondence is delivered, actioned and filed promptly
- Incidents of misfiling are low
- Incidents of file loss are low
- Information flows with ease through the organisation
- Officers appropriately share relevant information and information systems support such sharing
- Valuable information can easily be retrieved from one integrated source in one medium
- Poor or unethical organisational cultures spawn poor or unethical record keeping subcultures. Alternatively, poor and unethical record keeping is a sign of poor or unethical organisational cultures
- Responsibility for all aspects of record keeping is clearly defined and documented, both at the management and operational level
- The organisational structure is designed with a clear distinction between specialist record keeping staff and users
- The organisational structure is designed so that at the operational level

there is a separation between record keeping, custody of assets and system design

- Systems and procedures are in place to prevent unauthorised access to record stores
- Disaster preparedness and recovery plans are clearly defined and documented

Banking Operations - Information and Records Management Practices - Technology Use (eg, in Transaction Processing, Gathering and Analysis of Customer Information and Credit Histories, in Approval Processes, in Audit Trails, etc.)

- Introduction of computer technology is focused on the allocative aspects of information and records (ie, information as resource to improve the overall efficiency and effectiveness of the business), not on the authoritative aspects of information and records (ie, information as evidence of business transactions in support of internal management control and accountability)
- New computer systems have been introduced as separate projects and as a result there is little coordination between them
- Officials create and manage records in electronic form according to their own practices
- Computer systems, particularly Management Information Systems, are linked to the paper-based records from which their data are drawn so that the data may be easily verified
- Personal user security systems have been established
- Appropriate input, processing and output controls have been clearly established and documented

In the area of banking supervision, the study examined these assumptions:

Banking Supervision - Records Availability and Use

- The necessary information is available to monitor commercial banking operations to the extent required under Jamaican law
- Bank inspectors/supervisors/auditors experience problems in accessing the

necessary information to monitor commercial banks

- Existing Jamaican law, in providing a framework for the supervision of commercial banks, is sufficiently explicit on the subject of sources of information to support effective supervision

Banking Supervision - Attitudes to Records Use and Management

- Bank inspectors/supervisors/auditors are aware of the importance of good internal information management practices, particularly good record keeping, in commercial banks in terms of managing risks, preventing fraud and monitoring the banks' financial status

Banking Supervision - Training of Supervision Professionals

- Training of banking supervisory professionals influences attitudes and approaches to the use and management of information and records in banking operations
- Training of banking supervisory professionals covers management control systems and their relation to information management

These assumptions provided a framework to explore the posited relationships among competitive viability, accountability and record keeping according to the methodology outlined in the next section. Ultimately, this process resulted in the formulation of the central argument of the study, which is that record keeping practices in commercial enterprises must be controlled carefully in order to support both the internal and social accountabilities that form the basis of effective internal control and decision making necessary to continuing competitive viability.

Research Methods

The research conducted for this study can be divided into three phases. The study commenced with a review of relevant literature. One of the primary purposes of the literature review was to gain an orientation to the subject matter with a view to developing a list of assumptions about record keeping practices and their role in accountability and competitive viability within the commercial banking sector in Jamaica.

This phase was followed by exploratory field research conducted on UK-based banking enterprises. The aim of the exploratory field research was threefold. First, the research provided valuable background information supplemental to the literature review, which fed into the process of developing initial ideas about the relationships among record keeping, accountability and competitive viability in commercial banking. This turned out to be particularly important because literature specifically about banking records and record keeping is sparse. Second, it offered a useful opportunity to pilot test the initial assumptions derived from the literature review and, where necessary, to modify or add to them in advance of the main fieldwork. Finally, it provided a source of data from which to draw comparisons with the Jamaican data.

The next phase of the research project entailed conducting field research in Jamaican commercial banking enterprises in order to gather detailed qualitative data about the

relationships among competitive viability, accountability and record keeping. For the purposes of determining whether record keeping practices differ between banks that performed well during the financial crisis and those that failed, the study examined record keeping practices in both competitively viable banks and those that collapsed. Further, to determine whether there were differences in record keeping practices between local banks and those that have foreign connections (ie, local subsidiaries of foreign banks), the study also examined the record keeping practices of banks in both groups. During the field research, data were gathered primarily from interviews with directors, managers and other officials of both viable and failed Jamaican commercial banks, FINSAC officials, and forensic auditors as well as from surveys of records and records management systems in both viable and failed Jamaican commercial banks.

The field research also entailed gathering information from the examination of official reports and other forms of documentation. These sources included Jamaican statutes relating to banking supervision and financial reporting; Bank of Jamaica internal documentation relating to bank inspection; annual reports of various Jamaican commercial banks and enterprises; Government of Jamaica reports on the financial sector collapse and the work of FINSAC; and relevant newspaper articles. Choice of data sources was determined by two factors. Since this study aims to build and expand on studies by Wamukoya and Akotia, it was thought that it would be appropriate to use similar qualitative methods and data sources. Second, the methods and data sources employed in the studies by Wamukoya and Akotia are the most common used in records

management studies.¹¹

The interviews consisted of a series of highly structured, open-ended questions developed to elicit responses that would provide data related to the assumptions outlined in the previous section. These questions appear at Appendix 1 of this study and the list of assumptions to which they were matched appears as Appendix 4. Open-ended questions were preferred over closed questions to give the interview subjects scope to introduce new themes and issues. In order to determine whether attitudes and approaches to record keeping, accountability and the competitive viability of the banks varied by level within the organisational hierarchy, interviews were conducted with senior managers, middle managers and line managers. Where the interview subject had no objection (in most cases), interviews were tape-recorded for later transcription. Transcriptions and notes of interviews were entered into and managed using QSR NUD*IST qualitative data management software. Use of this software provided an important advantage in managing the data generated by the study and permitted rapid generation, testing and revision of “if-then” relationships and evidence of linkages to produce more robust theory. This may not have been possible using manual methods of analysis. Use of this software is discussed in greater detail in Appendix 2.

A data collection instrument was developed to guide the surveying of records and record keeping practices conducted as part of this study. The data collection instrument consisted of a series of questions answered by the researcher during on-site

investigations. Questions included on the survey form also were keyed to the initial assumptions of the study (see Appendix 4). The survey instrument appears at Appendix 3.

Throughout, the study employed qualitative research methods informed by Grounded Theory. Grounded Theory was developed in the 1960s by two sociologists, Barney Glaser and Anselm Strauss and is a methodology particularly well suited to generating new theory.¹² Glaser defines Grounded Theory as “. . . a general methodology of analysis linked with data collection that uses a *systematically applied set of methods* [author’s emphasis] to generate an inductive theory about a substantive area.”¹³ In Grounded Theory research, data collection, analysis and theory have a reciprocal and iterative relationship.¹⁴ The applied set of methods used in this study is discussed in Appendix 2. A range of research methods could have been chosen.¹⁵ Qualitative research methods informed by Grounded Theory were chosen over and above quantitative methods (ie, statistically analysed survey data) for a number of reasons. First, many researchers now criticise the value of quantitative methods, particularly in accounting research, and advocate the use of qualitative methods, such as case studies, in which theory and observation interact reflexively.¹⁶ Second, as there is no pre-existing theory on the relationships among the three main objects of analysis in this study (record keeping, accountability and competitive viability), Grounded Theory presented a good fit. Lee

Parker and Bet Roffey write: grounded theory is “ . . . oriented towards identifying and articulating overarching concepts and their causal linkages as explanations of patterned behaviour.”¹⁷ Another significant benefit of Grounded Theory is that it permits the use of multiple data sources. Parker and Roffey note that “Grounded theory . . . admits a greater range of data sources [than ethnomethodology and ethnography], including naturally occurring verbal exchanges, interviews, reports, minutes of meetings, correspondence and so on.”¹⁸

Organisation of the Study

The study is organised into two broad sections. The first section establishes the theoretical linkages among record keeping, accountability and competitive viability. Chapter two maps the relationship between two of these core concepts: competitive viability and accountability. It defines competitive viability and accountability, showing how these are integrally linked. Chapter three then maps the relationship between accountability and record keeping, arguing that accountability is dependent on a variety of records to operate effectively and that the manner of record keeping determines whether the quality of these records will be sufficient to meet accountability requirements. Chapter four draws an analogy between the relationships among economic development, public sector reform and record keeping and the relationships among competitive viability, accountability and record keeping. The chapter also uses research on public sector reform and record keeping in Africa as evidence of the plausibility of the theoretical framework

outlined in chapters two and three.

The second section of this study focuses on the commercial banking sector in general and record keeping, accountability and competitive viability in the Jamaican commercial banking sector in particular. It begins in Chapter five with a discussion of commercial banking operations and the role of accountability systems in managing and monitoring risks, assessing financial position and preventing fraud. Chapter six moves to a discussion of the Jamaican financial crisis, exploring exogenous and endogenous factors contributing to commercial bank collapses and concluding that weaknesses in the banks' systems of accountability can be implicated. Chapter seven goes on to explore poor information and communication as a cause of the banks' weak accountability systems, arguing that these weaknesses were the result of the banks' records creation and keeping practices and illustrating the effect of these practices on management's ability to monitor and manage the banks' financial positions and risk exposures. Chapter eight then explores the reasons underlying the banks' records creation and keeping practices, making the case that these practices were the result of an absence of clear bank-wide accountabilities and controls over record creation and keeping that, ultimately, encouraged the banks' officials to create and keep records according to personal values, beliefs and norms not always in tune with what was required to produce the quality of information needed to support effective operation of the banks' systems of accountability. Chapter nine goes on to examine how the banks' record creation and keeping practices also undermined the work of banking supervisors and FINSAC officials, thereby also affecting social accountability.

The study concludes with a chapter that summarises how the Jamaican empirical data illustrates the theoretical relationships among competitive viability, accountability and record keeping outlined in chapters two and three and, drawing upon the Jamaican experience, makes a number of recommendations concerned with strengthening record keeping practices and the use of records in accountability systems.

Exchange Rate Calculations

Throughout this study numerous references are made to Jamaican dollar amounts. As the Jamaican dollar is not a commonly traded international currency, in order to give the reader an appreciation of the value of the Jamaican amounts they are indicated in US dollars as well. However, during the Jamaican financial crisis, the Jamaican dollar suffered rapid devaluation in relation to the US dollar and, indeed, continues to decrease in value. Thus, for the sake of simplicity, in most cases this study uses a standard rate of \$J40:\$US1 to calculate US dollar equivalencies, a rate that obtained roughly throughout 1999.¹⁹ However, where this figure might present a misleading view of the value of a loss or an asset, an historically accurate exchange rate has been used. In such cases, the actual rate of exchange used to calculate the US dollar equivalency is indicated next to the Jamaican dollar amount.

Review of Related Literature

Literature from a wide range of disciplines was reviewed throughout this study. The purpose of this review is not to discuss all of the literature but to give the reader a sense of the approach taken in conducting the literature review. In addition, the review presents a discussion of the most influential works and how they relate to the development of the central themes of this study. Chapters two through five will discuss these works in much greater depth.

Critical to the idea that there exist relationships among competitive viability, accountability and record keeping has been the body of literature on the relationship between public accountability and record keeping that has emerged over the last decade. This literature grew out of Canadian archivist Terry Eastwood's 1989 Australian Society of Archivists' conference presentation calling for archivists to "spirit an understanding of archives as 'arsenals of democratic accountability and continuity'."²⁰ Eastwood's paper was followed by a series of articles and research papers that linked accountability with records and information management, subsequently published in 1992 in Sue McKemmish and Frank Upward's *Archival Documents: Providing Accountability Through Recordkeeping*.²¹

In 1996 Justus Wamukoya presented the first research exploring links between public sector reform initiatives in developing countries and record keeping in his doctoral dissertation on records management and administrative reform programmes in Kenya.²² Wamukoya's study was of major significance because it was the first such study to place

discussion of the relationship between record keeping and accountability in the context of literature on development economics and administration thereby indicating that poor record keeping had negative repercussions for the competitive viability and economic development of a country. His study was followed by the 1997 doctoral dissertation of Pino Akotia on the management of public sector financial records and their implications for good government in Ghana, showing once again how poor records management can undermine public sector reform.²³ More recently, the International Records Management Trust has conducted research into the relationship between good governance and record keeping.²⁴ Like Wamukoya and Akotia's research, its study of the management of public sector financial records in sub-Saharan Africa shows how poor record keeping practices undermine accountability and public sector management. Chapter four argues that this body of research lends empirical support to the central argument of this study.

Development policies, particularly those of the World Bank, that place increasing emphasis on the role of the private sector in economic development stimulated an interest in exploring whether the way in which poor record keeping undermined accountability and public sector reform similarly undermined accountability and private sector competitive viability. Works such as Beatriz Armendariz de Aghion and Francisco Ferreira's survey of the 1980s literature on the Third World Debt Crisis, Paul Mosley's general overview of the World Bank and International Monetary Fund's structural adjustment programmes and Howard Stein's look at structural adjustment in Africa as well as World Bank publications were all useful in tracing this trend toward greater reliance on the private sector as an

engine of economic growth for developing countries.²⁵ Of particular interest is the 1998/99 World Bank *World Development Report* because of its clear attention to the private sector as an engine of economic development, its focus on financial institutions such as banks as private sector entities of particular importance to growth and development in Third World countries, and its recognition of information problems as barriers to the success of development initiatives.²⁶ However, as will be discussed in chapter four, despite linking failures in development initiatives with information problems, the report still does not identify poor record keeping in private sector entities as a source of such problems, which this study contends is a gap in the World Bank's analysis and weakens its overall approach to solving information related problems that stifle economic development.

In citing information problems as a barrier to success in development initiatives, the World Bank report draws on a well-defined body of economic theory that links market imperfections with information related transaction costs. This body of theory has influenced formation of the theoretical framework of this study. The argument that poor record keeping contributes to information related problems that undermine accountability and competitive viability in private sector entities rests upon the underlying argument that not only external market conditions but also the way in which a firm operates plays an important role in its continuing competitive viability and that internal information related problems can create operating inefficiencies in a firm which undermine its competitive position. Support for this line of thinking is found in the writings of economic and

organisational theorists influenced by the ideas of decision theorist Herbert Simon, in particular the “new institutional economics” (NIE) theorists, whose ideas have been well summarised in a collection of papers edited by John Harriss, Janet Hunter, and Colin M. Lewis entitled *The New Institutional Economics and Third World Development*, and in the writings of economic and organisational theorist Roy Radner, who focuses on the operational inefficiencies that arise from information related problems in large, hierarchical organisations.²⁷ Like the World Bank report, although these writers recognise that information related problems create operational inefficiencies in organisations and markets, they do not attribute information problems to poor record keeping. Nevertheless, this study aims to show that poor record keeping is a source of such information related problems and, furthermore, that these problems undermine accountability and competitive viability in private business enterprises.

As noted previously, a decision was taken to employ a Grounded Theory-based approach using a case study of Jamaican commercial bank failures to explore the possible linkages among competitive viability, accountability and record keeping. Works such as W. Lawrence Neuman’s *Social Research Methods* provided a useful overview of the range of methodological possibilities.²⁸ Other works, such as Christopher Humphrey and Robert W. Scapens’, “Theories and Case Studies of Organizational accounting practices: Limitation or Liberation?” and Jane Broadbent and Richard Laughlin’s, “Developing empirical research: an example informed by a Habermasian approach,” influenced the methodological direction taken in this study by illustrating an evident trend away from

more quantitative approaches in accounting research toward more qualitative empirical studies.²⁹ In terms of the Grounded Theory approach, B. Glaser's *Basics of Grounded Theory Analysis* provided a general guide to the methodology while Lee D. Parker and Bet H. Roffey, "Back to the drawing Board: revisiting grounded theory and the everyday accountant's and manager's reality" offered a useful applied example of the method.³⁰ Harold Garfinkel's *Studies in Ethnomethodology* was also useful in shaping the methodological approach employed in the study.³¹

The decision to use a case study of Jamaican commercial bank failures to explore the relationships among competitive viability, accountability and record keeping necessitated an extensive review of the literature on banking. Works such as Shelagh Heffernan's *Modern Banking in Theory and Practice*; Geoffrey Lipscombe and Keith Pond's book on the business of banking; Joel Bessis' *Risk Management in Banking*; Mervyn King's book on back office functions in banking; and numerous papers produced by the Basle Committee on Banking Supervision all provided valuable general information about the business of banking.³² Background information about banking in developing country contexts was drawn from Chris Baltrop and Diana McNaughton's publications on banking institutions in developing countries; Wilbert O. Bascom's book on bank management and supervision in developing financial markets and Howard Palmer's *Bank Risk Analysis in Emerging Markets*.³³

A review of literature related to the causes of bank failures was important to the process

of analysing what banking experts understand about competitive viability in banking. In this regard, a series of papers edited by Gerard Caprio Jr. entitled *Preventing Bank Crises: Lessons from Recent Global Bank Failures* proved an invaluable source for its wide range of perspectives on the causes of bank failures and numerous case studies of bank failures in different countries.³⁴ R. Glenn Hubbard's *Financial Markets and Financial Crises* was also a useful source.³⁵ Common causes cited as leading to bank failures included: macroeconomic instability; excessive exposure to a single sector; poor asset management; inappropriate or ineffective governance, management and incentive structures; lack of internal control mechanisms; fraud; a decline in franchise value; weaknesses in the regulatory framework; and regulatory forbearance. A review of this literature revealed that cited causes of bank failures tended to be related to either exogenous factors, such as the macroeconomic environment and bank regulation, or those that were endogenous, such as management failure to control various types of risks, poor credit risk management being among the most common of problems.

A number of works on the field of banking pointed to the importance of information and communication in managing bank balance sheets and risks and lent support to the thesis that operational problems in organisations can be linked to information related problems. Among these works were several papers in Ray Kinsella's *Internal Control in Banking* and the Basle Committee on Banking Supervision's papers on a framework for evaluating internal control in banking, enhancing bank transparency and operational risk management.³⁶ The literature on banking in developing countries suggested that relatively

poor quality accounting and management information often contributes to operating problems in banks in these countries. As a rule, however, this literature did not link the availability of good quality accounting and management information with good record keeping practices. The Basle Committee's paper on internal control is the only one of these works to associate the avoidance of information related problems with the need to establish record keeping controls; but, even so, it does so in a very limited way – record keeping is conceptualised as being synonymous with records retention scheduling. This view is not so far from that of records manager Nan Heldenbrand Morrisette whose book *Setting Up a Bank Records Management Program* largely concentrates on issues of records retention scheduling.³⁷ Nevertheless, this study argues for a much broader conceptualisation of record keeping in the banking context and the types of controls necessary for the production of quality records, a conceptualisation encompassing all aspects of the creation and keeping of records in different media.

In advance of conducting the field research, a review also was carried out of literature on accountability, including the related areas of corporate governance, financial and management accounting and auditing. This literature provided a sharper picture of accountability and a clearer understanding of its operation in the context of the case study setting, namely, commercial banking. Keith Hoskin's "The 'awful idea of accountability': inscribing people into the measurement of objects," links the rise of accountability in business settings with the need to prevent internal control problems and poor decision making that might cause business failures, as does Alfred Chandler's *The Visible Hand*

and James Beniger's *The Control Revolution*.³⁸ In contrast, Harold Garfinkel, in his *Studies in Ethnomethodology*, views accountability as holding organisations together not by virtue of supporting internal control and decision making but by virtue of being the actual mechanism of social relations that gives rise to and perpetuates organisations.³⁹ This study accepts both views, but places emphasis on accountability's role in supporting internal control and decision-making.

The works on accountability also brought into sharper focus the differences and similarities between accountability in business versus government settings. While accountability in each setting essentially functions according to the same mechanisms and aims to establish control, the interests which they serve are different: in the case of accountability in business settings, the interests of shareholders, directors, and managers are primary while in democratic accountability it is the public interest or a "collective good". Nevertheless, accountability can serve the public good in the case of private industries in which the public has an interest. This is because accountability provides an effective basis for the internal control and efficient operation of such private sector enterprises. Internal control and efficient operations are essential to the attainment of goals benefiting the common good, such as economic development. Due to the importance of banks to economies, in particular in developing countries, banking is an industry in which accountability does serve both public and private interests.

Some of the literature on accountability challenges its effectiveness as a management tool.

In particular John Roberts in “From Discipline to Dialogue: Individualizing and Socializing Forms of Accountability” argues against the traditional view that accountability supports the competitiveness of a business enterprise.⁴⁰ He points out that traditional, hierarchical forms of accountability can result in individualising behaviour that is counterproductive in a business environment that demands a team-oriented approach. Roberts calls for less formal “lateral” forms of accountability and trust to replace more traditional accountability relationships. This study takes the view that in a setting characterised by rapid external and organisational change there may be insufficient time to build trust relationships and that, therefore, formal accountabilities still will be necessary to achieving internal control, sound decision making and competitive viability.

The accountability literature also touches on the significance of the account - the point at which accountability and record keeping intersect - in the accountability relationship, viewing accounts as critical to the operation of accountability. The literature points to growing support for the idea, influenced by post-modernist thinking, that accounts are socially produced “re-presentations” of organisational transactions. This view challenges the traditional view of accounts as objective reflections of reality. Chief among these works in terms of its influence on the ideas presented in this study is Joni J. Young’s “Getting the Accounting ‘Right’: Accounting and the Savings and Loan Crisis” which illustrates how definitions of “right” accounting and accounting numbers shifted with the

interests and policies of bank regulators.⁴¹

Recent archival theory also reflects the trend in the literature toward viewing the account as a socially produced representation. Among the writings drawn upon to develop the ideas in this study are Brien Brothman's, "Orders of Value: Probing the Theoretical Terms of Archival Practice" and "'Declining Derrida': Integrity, Tensegrity, and the Preservation of Archives from Deconstruction," Tom Nesmith's review of Trevor Livelton's *Archival Theory, Records and the Public* and Verne Harris' *Exploring Archives: An Introduction to Archival Ideas and Practice in South Africa*.⁴² These writers all see the archival record not as objective evidence of facts but as text, that is, socially and technologically produced accounts of "reality". As such, they view the social and technological means of inscription, transmission and contextualization as well as subsequent readings of the record throughout its life span as shaping the record's ultimate meaning. This study also draws upon social theory, particularly Emile Durkheim's study of threats to the social stability of industrial society and the ideas of conflict theorists such as Ian Carib, to flesh out the ways in which different interests in record creation and keeping will influence the meaning of a record over time in a manner that may not be intentional nor supportive of broader organisational goals and requirements.⁴³ In the final analysis, this study accepts Brien Brothman's argument that record keeping accountabilities and controls are essential to controlling social and technological influences and interests as well as preventing a natural deconstruction in the meaning of records over time, though it is acknowledged that

even best record keeping practices cannot definitively control the meaning of accounts.⁴⁴

Conclusion

This chapter has introduced the purpose of this study, which is to explore the relationships among competitive viability, accountability and record keeping both theoretically and empirically using a case study of Jamaican commercial bank failures, and then to learn management lessons from what is discovered about the relationships among these three phenomena. The expectation is that the results of this study will reveal that the relationships are similar to those shown by research conducted on the relationship between record keeping and public sector reform in Africa, that is, that poor record keeping undermines accountability and, by extension, competitive viability. This is thought to be significant because of the increasing emphasis placed on private sector entities, in particular banks, in economic development initiatives as well as because, though acknowledging that information problems contribute to organisational and market inefficiencies, current theories do not attribute these problems to poor record keeping. If poor record keeping is a source of such problems – as this study argues – then record keeping must be improved if organisational and market inefficiencies are to be prevented or corrected. In developing this argument, this study now turns to presenting a theoretical framework linking competitive viability, accountability and record keeping.

End Notes

¹ B.H. Spicer, "The Resurgence of Cost and Management Accounting: A Review of Some Recent Developments in Practice, Theories and Case Research Methods," *Management Accounting Research* 3 (1992): 13.

² Pino Timothy Akotia, "The Management of Public Sector Financial Records: The Implications for Good Government," unpublished PhD thesis, Faculty of Arts, University of London, 1997 and Justus Muranga Wamukoya, "Records Management and Administrative Reform Programmes in Kenya" unpublished PhD thesis, Faculty of Arts, University of London, 1996.

³ International Records Management Trust, "Guidelines for Public Sector Field Missions: Strengthening Accountability by Managing Recorded Evidence" (London: IRMT, December, 1998).

⁴ Morris Goldstein, *The Case for an International Banking Standard* (Washington, D.C.: Institute for International Economics, 1997), 4.

⁵ For example, the US savings and loan crisis cost American taxpayers some \$US150-180 billion [see Gerard Caprio, Jr. et al, eds., *Preventing Bank Crises: Lessons from Recent Global Bank Failures* (Washington, D.C.: The World Bank, 1998), x].

⁶ Gerard Caprio, Jr, x.

⁷ World Bank, *World Development Report 1998/99: Knowledge for Development* (NY: Oxford University Press, 1998), 81.

⁸ *World Development Report*, 83.

⁹ See Karin Lissakers, "The Role of the International Monetary Fund," *Preventing Bank Crises: Lessons from Recent Global Bank Failures*, Gerard Caprio Jr. et al, eds. (Washington, D.C.: The World Bank, 1998), 29.

¹⁰ See *World Development Report* and Charles W. Calomiris and Gary Gorton, "The Origins of Banking Panics: Models, Facts and Bank Regulation," *Financial Markets and Financial Crises*, Glenn R. Hubbard, ed. (Chicago: University of Chicago Press, 1991), 109-174.

¹¹ See Ira Penn et al. *Records Management Handbook*, 2nd Edition (Aldershot: Gower, 1994), 59-60 and E.A. Parker, "Developing the Programme," in P. Emmerson, ed., *How to Manage Your Records* (Cambridge: ICSA, 1989), 24-39.

¹² Lee D. Parker and Bet H. Roffey, "Back to the Drawing Board: Revisiting Grounded Theory and the Everyday Accountant's and Manager's Reality." *Accounting, Auditing & Accountability Journal* 10 (1997): 213.

¹³ B. Glaser, *Basics of Grounded Theory Analysis* (Mill Valley, CA: Sociology Press, 1992), 16.

¹⁴ Parker and Roffey, 214.

¹⁵ Richard Laughlin has developed a scheme of classification for approaches to empirical research work based

on three main defining characteristics: 1) levels of prior theorisation, 2) level of theoretical nature of the methods and 3) level of emphasis given to critique of status quo and need for change. According to Parker and Roffey, the grounded theory approach fits into the low prior theorisation and medium-low level of theoretical nature of methods category [see Parker and Roffey, 21-218].

¹⁶ The methodological shift from quantitative to qualitative methods, particularly in accounting research, reflects a larger shift in the view of accounting. In the 1960s, researchers viewed accounting as objective, neutral and rational. However, in the 1980s, influenced by social theorists such as Foucault, Latour, Marx, Adorno, Braverman, Habermas, Giddens, Weber and Derrida, researchers began to challenge the earlier view of accounting, seeing it rather as socially, culturally and politically determined [for more on this theme, see Christopher Humphrey and Robert W. Scapens, "Theories and Case Studies of Organizational Accounting Practices: Limitation or Liberation?" *Accounting, Auditing & Accountability Journal* 9,6 (1996):86-106].

¹⁷ Parker and Roffey, 217.

¹⁸ Parker and Roffey, 218

¹⁹ Bank of Jamaica, *Statistical Digest* (Kingston, JA: Bank of Jamaica, December 2000). The actual average rate throughout 1999 was actually 39.33 according to the *Statistical Digest*.

²⁰ Sue McKemmish and Frank Upward, "Introduction," *Archival Documents: Providing Accountability Through Recordkeeping*, Sue McKemmish and Frank Upward, eds. (Melbourne: Ancora Press, 1993), 2.

²¹ Ibid.

²² Wamukoya *passim*.

²³ Akotia *passim*.

²⁴ Kimberley Barata, Piers Cain and Anne Thurston. "Accountability and Public Sector Management: The Management of Financial Records in Sub-Saharan Africa: A Final Report" (London: International Records Management Trust, 1998).

²⁵ Beatriz Armendariz de Aghion and Francisco Ferreira, "The World Bank and the Analysis of International Debt Crisis," *The New Institutional Economics and Third World Development*, John Harriss, Janet Hunter and Colin M. Lewis, eds. (London: Routledge, 1995), 221-226; Paul Mosley, "Structural Adjustment: A General Overview, 1980-9," *Current Issues in Development Economics*, V.N. Balasubramanyam and Sanjaya Lall, eds. (London: MacMillan Education Ltd, 1991), 223-253; Howard Stein, "Institutional Theories and Structural Adjustment in Africa," *The New Institutional Economics and Third World Development*, John Harriss, Janet Hunter and Colin M. Lewis, eds. (London: Routledge, 1995), 109-132; The World Bank, *A Governance Approach to Civil Service Reform in Sub-Saharan Africa: Improving Effectiveness and Efficiency* (Washington, D.C.: The World Bank, 1983).

²⁶ *World Development Report passim*.

²⁷ John Harriss, Janet Hunter and Colin M. Lewis, eds., *The New Institutional Economics and Third World Development* (London: Routledge, 1995) and Roy Radner, "Hierarchy: The Economics of Managing," *Journal of Economic Literature* 30 (September 1992): 1384-1404.

²⁸ W. Lawrence Neuwman, *Social Research Methods: Qualitative and Quantitative Approaches* (Needham Heights, Massachusetts.: Allyn & Bacon, 2000).

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- ²⁹ Humphrey and Scapens *passim* and Broadbent and Laughlin *passim*.
- ³⁰ Glaser *passim* and Parker and Roffey *passim*.
- ³¹ Harold Garfinkel, *Studies in Ethnomethodology* (Cambridge: Polity Press, 1984).
- ³² Shellagh Heffernan, *Modern Banking in Theory and Practice* (New York, N.Y.: John Wiley & Sons, 1996); Geoffrey Lipscombe and Keith Pond, *Banking: The Business*, 3rd ed. (Loughborough: Loughborough University Banking Centre, 1998); Joel Bessis, *Risk Management in Banking* (West Sussex: John Wiley & Sons, 1998); Mervyn King, *Back Office & Beyond: A Guide to Procedures, Settlements and Risk in Financial Markets* (Cambridge: Gilmour Drummon Publishing, 1999); Basle Committee on Banking Supervision, "Core Principles for Effective Banking Supervision," (Basle: Basle Committee on Banking Supervision, September, 1997); Basle Committee on Banking Supervision, "Enhancing Bank Transparency: Public Disclosure and Supervisory Information that Promote Safety and Soundness in Banking Systems" (Basle: Basle Committee on Banking Supervision, September, 1998); Basle Committee on Banking Supervision, "Framework for the Evaluation of Internal Control Systems" (Basle: Basle Committee on Banking Supervision, January, 1998); and Basle Committee on Banking Supervision, "Operational Risk Management" (Basle: Basle Committee on Banking Supervision, September, 1998).
- ³³ Diana McNaughton, *Banking Institutions in Developing Markets*, vol. 1 (Washington, D.C.: World Bank, 1992); Chris J. Barltrop and Diana McNaughton, *Banking Institutions in Developing Markets*, vol. 2 (Washington, D.C.: World Bank, 1992); Wilbert O. Bascom, *Bank Management and Supervision in Developing Financial Markets* (London: MacMillan Press, 1997); Howard Palmer, *Bank Risk Analysis in Emerging Markets* (London: Euromoney Publications, 1998).
- ³⁴ Gerard Caprio Jr. *passim*.
- ³⁵ R. Glenn Hubbard, ed., *Financial Markets and Financial Crises* (Chicago, University of Chicago Press, 1991).
- ³⁶ Ray Kinsella, ed. *Internal Controls in Banking* (Chichester: John Wiley & Sons, 1995); Basle Committee on Banking Supervision, "Framework for the Evaluation of Internal Control Systems," "Enhancing Bank Transparency" and "Operational Risk Management" *passim*.
- ³⁷ Basle Committee on Banking Supervision, "Framework for the Evaluation of Internal Control Systems," 4, 17-18 and Nan Heldenbrand Morrisette, *Setting Up a Bank Records Management Program* (Westport Connecticut: Quorum Books, 1993)
- ³⁸ Keith Hoskin, "The 'awful idea of accountability': inscribing people into the measurement of objects" *Accountability: Power, Ethos and Technologies of Managing*, Rolland Munro and Jan Mouritsen, eds. (London: International Thompson Business Press, 1996); Alfred Chandler Jr, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1977); James Beniger, *The Control Revolution* (Cambridge, Massachusetts: Harvard University Press, 1986).
- ³⁹ Garfinkel *passim*.
- ⁴⁰ Roberts *passim*.

⁴¹ Joni J. Young, "Getting the Accounting 'Right': Accounting and the Savings and Loan Crisis" *Accounting, Organizations and Society* 20.1 (1995): 55-80. See also note 15.

⁴² Brien Brothman, "Orders of Value: Probing the Theoretical Terms of Archival Practice" *Archivaria* 32 (Spring 1991): 78-100; Brien Brothman, "'Declining Derrida': Integrity, Tensegrity, and the Preservation of Archives from Deconstruction" *Archivaria* 48 (Spring 1999): 64-88; Tom Nesmith, "Still Fuzzy, But More Accurate: Some Thoughts on the 'Ghosts' of Archival Theory" *Archivaria* 47 (Spring 1998): 136-150; Verne Harris, *Exploring Archives: An Introduction to Archival Ideas and Practice in South Africa*, 2nd ed. (Pretoria: National Archives of South Africa, 2000).

⁴³ These social theorists are discussed in M. Haralambos and M. Holborn, *Sociology: Themes and Perspectives* (London: Harper-Collins, 1996) and The University of the West Indies, *Introduction to Sociology: Reader*, vol. 1 (Bridgetown, Barbados, University of the West Indies, 1998).

⁴⁴ Brothman, "'Declining Derrida'" *passim*.

Chapter Two: Competitive Viability and Accountability – Mapping the Relationship

Introduction

This study seeks to establish a chain of links among competitive viability, accountability and record keeping in the context of private sector business entities. The purpose of this chapter and the one that follows is to map out a theoretical relationship between these three phenomena. As discussed in the introduction, the study adopts a Grounded Theory-based methodological approach. As such, the theoretical framework presented in this chapter and the next began with the assumptions and broad orienting concepts outlined in chapter one. Mapping of the theoretical relationships among competitive viability, accountability and record keeping progressed as the field research data were gathered, analysed and then related to the work of many theorists from fields as diverse as economics, sociology, computer science, accounting, literary criticism and archives administration. In this sense, the theoretical framework presented in this and the following chapter both draws inductively upon the field research data and

provides a framework for analysis and discussion of these data in later chapters.

Defining Competitive Viability

What makes a business entity competitively viable? To remain viable – to survive - a firm must operate efficiently. Optimally efficient operation occurs when firms use all of their available resources and technology to produce with the least amount of waste the products or services that customers most want.¹ Firms that operate most efficiently, that is to say those with high productivity, will have a comparative market advantage and therefore will be the most competitive. Firms that do not operate efficiently will be relatively disadvantaged and less competitive, and in extreme cases will become non-viable.² Competitive viability therefore means the ability of a firm to operate with sufficient efficiency to avoid failure and ensure survival in a competitive market.

This study avoids attempting to measure degrees of competitiveness, instead focusing on viability, because of the conceptual difficulties associated with measuring a firm's overall or relative productivity. For instance, as economists Phillipe Aghion and Peter Howitt observe, if we measure the output of hospital services in terms of the number of patient days spent in hospital, when one hospital introduces a new computer assisted surgical procedure that increases the hospital's efficiency by curing people in fewer days it can actually seem as if the more efficient hospital is less productive.³ Similarly, analysts typically use profitability as a comparative measure of productivity, but this can be misleading

as well. Investments in research and development may be necessary for the firm to continue to grow and remain viable and profitable over the long-term while reducing short-term profitability.⁴ In other words, optimal efficiency is not always achieved by short-term profit maximisation. Even assuming profitability accurately reflects productivity, however, there are many different methods used to measure profitability each of which results in a slightly different ranking of a firm's relative market position.⁵ Thus, in order to avoid the analytical complications associated with attempting to measure degrees of competitiveness, this study focuses on the basic question of survival in a competitive market place. Using this approach, it is easier to determine whether a firm is or is not competitively viable. Those that are continue to exist. Those that are not fail.

According to the neo-classical economic model, efficient operation of the firm occurs almost effortlessly and naturally. As Kenneth Boulding has written of general equilibrium theory, the firm is "a strange bloodless creature without a balance sheet, without any visible capital structure, without debts, and engaged apparently in the simultaneous purchase of inputs and sale of outputs at constant rates."⁶ In this economic model, the "invisible hand" of market forces operating according to the law of supply and demand, achieves a balance between what consumers want (demand) and what firms produce (supply).⁷ The market operates perfectly and naturally to achieve equilibrium, and thereby efficient production. The reason is that firms are discouraged by the profit motive from using inputs wastefully. The market mechanism also guides firms' output decisions: theoretically, a rise in the price of product because of high demand will lead firms

to produce more of that product, and *vice versa*, thereby optimally balancing demand and supply once more. Finally, the market assists, through a price system, in the distribution of goods among consumers in accordance with their tastes and preferences through a series of voluntary exchanges.

If we accept this model, to remain competitively viable firms must strike a balance between supply and demand in a given market. However, there are many factors that cause imbalances. These factors may either cause a shift in demand or supply.⁸ Typically, such factors as a change in the incomes of consumers, a population change, a shift in consumer preferences, and a shift in the price and availability of related goods all affect the demand side of the equilibrium equation.⁹ Conversely, shifts on the supply side usually result from changes in the size of the industry, technological progress, changes in the price of production inputs, and changes in the price of related products.¹⁰ When these changes occur they can destabilise a firm's competitive position.

The factors affecting market equilibrium and thus a firm's competitiveness can be divided into two broad categories: 1) exogenous and 2) endogenous. Exogenous factors are those that originate outside the firm. A change in population provides an example of an exogenous factor. Exogenous factors may have an impact on either demand or supply. In contrast, endogenous factors originate within the firm itself as a result of the strategies and methods of conducting business pursued in response to exogenous factors. Consequently endogenous factors always affect the supply side of the market equilibrium equation. Choice of markets in which to

operate serves as an example of an endogenous factor.

Though exogenous factors are important, studies such as the European Bank for Reconstruction and Development's examination of economic transition in Central and Eastern Europe, the Baltic states and the Commonwealth of Independent States also have found that more important than the objective status of these factors are managers' perceptions of them, as this will impact upon the decisions they make in managing their firms.¹¹ Implicit in the findings of the ERBD study is a rejection of the neo-classical view of the firm as a "bloodless creature." Instead, the study sees managers' decisions as crucial in the running of businesses.

Herbert Simon pioneered this approach to understanding organisations, now known as "the decision-making approach," in the 1940s to 1950s.¹² His work inspired economists such as Ronald Coase, Douglas North and Oliver Williamson to develop a new economic model that came to be known as the New Institutional Economics.¹³ From the perspective of this model, external factors are triggers for the decisions and actions that managers take in running their businesses. The environment in which they operate forces managers to respond and adapt or see their businesses become non-viable. Adaptation may involve the development of new products and services; the upgrading of existing products and services; modification of existing or acquisition of new plant and equipment; the retraining of existing or hiring of new employees to meet new or upgraded product requirements; the attraction of new customers; or changing the business's organisational structure. In short, managers must innovate. They may decide to

implement all or any number of the above changes in order to adapt to altered market conditions, thus, to remain competitively viable.¹⁴

According to neo-classical economic theory, premised as it is on the notion of rational economic actors operating in the context of perfect markets, managers' decisions should be perfectly rational responses to environmental changes, and we should expect them to respond in the same manner all things being equal. In contrast to the neo-classical theory, however, managers' choices are not always rational, that is to say, adaptive or optimal given existing external conditions, as judged in terms of the goals of the firm. Indeed, Ronald Coase has written that the neo-classical model "only lives in the minds of economists but not on earth."¹⁵

Why are managers' choices not always rational? Economic theory offers two schools of thought in answer to this question. On the one hand, there is the perspective of New Institutional Economics. This model starts within the neo-classical framework, that is, the assumption of scarcity and therefore of competition, but holds that market imperfections prevent the market from operating as it naturally should operate (ie, achieving general equilibrium). One such market imperfection is the cost associated with each transaction in the marketplace. Oliver Williamson, a leading theorist of the New Institutional Economics model, has developed a theory of what constitutes transaction costs based on the work of Herbert Simon and Kenneth Arrow. Arrow argued that market imperfections arise from the problem of information asymmetry, that is, when the motivations and integrity of one party to a transaction is unknown,

transaction costs will rise. Simon argued that organisations are never perfectly rational because their members have limited information-processing abilities. Members of an organisation usually have to act on the basis of incomplete information about possible courses of action and their consequences, are able to explore only a limited number of alternatives relating to any given decision and are unable to attach accurate values to outcomes. Thus, Simon concluded that, in contrast to neo-classical economic theory in which the individual is assumed to make perfectly rational choices, individuals settle for “bounded rationality.”¹⁶ Information related limitations introduce transaction costs. Williamson’s thesis is that such problems work together to create the transaction costs that make the firm necessary: “. . . what links opportunism and bounded rationality is uncertainty created by both the cognitive limitations of corporations and the unforeseen disturbances which create opportunities for one party to the exchange to take advantage of the other.”¹⁷

There is another school of thought the roots of which predate the New Institutional Economics model and which economist Howard Stein therefore calls the Old Institutional Economics. This school rejects the neo-classical notion of rational-maximising self-seeking behaviour and the naturalism of markets. Instead, it holds that markets operate in specific historical and cultural contexts, not according to universal principles. As such, the Old Institutional Economics views firms as less instrumental and more as “the habits and routines that allow corporations to deal with the complexity of production and exchange and to develop expectations of the future in a world of uncertainty.”¹⁸ According to this

model, the choices of economic actors may not seem rational because they are conditioned by actors' historical and cultural contexts.

The two schools of thought – New and Old Institutional Economics – are not mutually exclusive as explanations of why the choices of economic actors are not always rational.¹⁹ Rather, they are complementary. Arrow's premise that economic actors make choices according to their own motivations opens the door to a synthesis of these two models in that individuals' motivations will bear the stamp of their historical and cultural influences. A deeper exploration of the concepts of information asymmetry and bounded rationality that underpin the New Institutional Economics model will shed further light on this point.

Competitive Viability, Information Asymmetry and Bounded Rationality

Information asymmetry and bounded rationality are information related problems that firms develop as they grow. The irony is that, although growth introduces these information related operating inefficiencies, it is necessary for a firm to remain competitively viable in the long-term. This is because there are diminishing returns to the accumulation of capital. In other words, if "you continue to equip people with more and more of the same capital goods without inventing new uses for the capital, then a point will be reached eventually where the extra capital goods become redundant except as spare parts in the event of multiple equipment failure, and where therefore the marginal product of capital is negligible."²⁰ Thus, in order to avoid dissolution by diminishing returns,

managers often pursue growth as a competitive business strategy.²¹ For example, traditionally firms have sought to grow by diversifying into new geographic markets or expanding the range of products or services that they offer.

However, growth as a competitive strategy leads to an increase in the number of decisions to be made and the number of transactions for processing. In order to handle increased throughput, firms usually must take advantage of the productivity gains that can be achieved through decentralisation and specialisation. It was Adam Smith, the founder of modern economics, who first identified that specialisation and division of labour could result in tremendous productivity gains.²² Departmentalisation and specialisation increases productivity because fragmentation and bounding the decision-making process can render work more manageable.

Thus, competitive strategies such as the introduction of new products and services or the acquisition of new customers also have a tendency to produce more hierarchical, decentralised and specialised organisations. This is not to suggest that all organisations are hierarchical, nor that all the interactions in an organisation are hierarchical, decentralised or specialised, even if the formal organisation chart suggests that this is the case. Indeed, the so-called organic organisational structure which features lateral forms of communication and limited amounts of specialisation has become a favoured organisational form.²³ However, as economist Roy Radner notes, hierarchy, and we may extend this to

decentralisation and specialisation, is an important principle of organisation, both in its prevalence and in the prevalence of attempts to circumvent it.²⁴

Building on Simon's theory, Roy Radner argues that there are three different types of decentralisation in hierarchical organisational structures. These are: decentralisation of information processing, decentralisation of information, and decentralisation of incentives. Each of these will be discussed in turn.

First, there is decentralisation of what Radner refers to as "the processing of information."²⁵ As he writes:

Although managers in a firm have many different functions, one of their most important functions is that of processing information. We might think of the information processing part of the firm as one huge decision-making machine, which takes signals from the environment and transforms them into the actions to be taken by the "real workers." Of course, as I have already pointed out, every worker on an assembly-line or lathe, and every salesperson in the field, makes many decisions every day that are not precisely dictated by management . . . The point I am making here is that in the modern corporation a large part of the information processing activities are highly *decentralized* [author's emphasis], i.e., assigned to a large number of persons in the corporation who specialize in these activities.²⁶

So, essentially, what Radner is speaking of when he refers to decentralisation of information processing is the decentralisation of decision-making that leads to concomitant decentralised transaction processing in a given organisation.

Second, Radner argues that large-scale business entities experience "decentralisation of information" because different decision makers in a firm will typically have access to different information. This is so because in a large firm in

which decision making and the taking of action is departmentalised and specialised, so too may be the storage of information about those decisions and actions. In other words, each information processor creates, and often possesses, only information about his or her own decisions and actions. This information may represent only a portion of the total information about a single transaction.

Radner, however, argues that the information limitations created by decentralisation of information are mitigated by the fact that different decisions require different sets of data. He comments that it is not economical for all decisions and resultant transactions to be based on the same data or all the information available to the firm.²⁷ There is no need for each member to have full access to information in order to make effective decisions, as most decision problems require a relatively small amount of information to make a fairly good choice. Radner writes:

A small decision about the maintenance of a machine can be made quite well based on information local to the production unit; similarly, a good decision about the order in which to visit customers can be made on the basis of information local to the sales office.²⁸

He goes on to say that:

On the other hand, a decision to change the rate of production should be based, in part, on information about conditions at other production units, as well as on information about demand for the product. But even in this case, completely detailed information about all other production units and all sales units is not really needed; certain aggregate measures will be adequate.²⁹

While managers will not need to, indeed cannot, refer to all of an organisation's information in the making of a specific decision, relying instead on aggregate

measures or selections of information, the workers that produce the aggregate measures and selections on which managers depend for their decision making still need to know about and have some mechanism to pull together a view based on all relevant information. Thus, we must conclude that full information is needed, although managers themselves may require only selections or aggregations of it for decision-making. Furthermore, whatever mechanism is used to select or aggregate the data must reasonably draw upon a full view of all relevant information if poor decision-making is to be avoided. The inadvertent overlooking of relevant information that is not easily accessible could lead to misleading selections or aggregations of data that cause poor decisions.

This pulling together of fragmented information is not easily done and presents a serious challenge to organisations. As Michael Hammer and James Champy have written in their popular book *Reengineering the Corporation: A Manifesto for Business Revolution*, the problem with many contemporary businesses is that departmentalisation, specialisation and routinisation create “functional silos” or “stovepipes” built on narrow pieces of a process in which each person only possesses information about his or her part. Without some kind of coordinating and integrating mechanism within an organisation to pull together all the pieces, it is very difficult for aggregations to reflect a full view of the organisation or for a selection of data to consist of all information relevant to a given decision. This, Hammer and Champy argue, has led to contemporary performance problems in companies such as a lack of customer focus, weak competitiveness and the inability to change.³⁰ Likewise, in their book on organisational learning, Gilbert

Probst and Bettina Büchel discuss how “operational islands” in many hierarchical, specialised and routinised organisations prevent managers from having access to all the information they need for decision making, which presents a significant barrier to organisational learning.³¹

The quest to overcome problems associated with the fragmentation of information that occurs with decentralisation has led experts to recommend two main remedies: 1) corporate restructuring and 2) computerisation. It must be noted that these strategies have been introduced also to address the need to speed up information processing within firms. The first remedy, restructuring, seeks to redress the fragmentation of information by reorganising transactions and their processors. For example, the multi-divisional organisational structure arose as a means of resolving the information inefficiencies of its predecessor organisational structure, the functionally organised firm. However, as Steve Thompson and Mike Wright note in an article on the role of restructuring transactions in corporate governance, many of the perceived advantages of the multi-divisional structure in terms of resolving information problems have not materialised.³² Information inefficiencies remain.

This begs the question why restructuring the transactions in hierarchical organisations has had less than satisfactory results as a remedy to information inefficiencies. Here it is posited that the reason for its failure is that all large organisations must have some level of departmentalisation, specialisation and routinisation, even if reduced. Whenever these characteristics are present, the

organisation unavoidably experiences fragmentation of information as a natural state. While it is true that certain organisational structures reduce the level of structural complexity (ie, those that “flatten” the organisational hierarchy) and therefore have a tendency to ameliorate the problem of information fragmentation by reducing its severity, no amount of tinkering with a large organisation’s structure can ever do away with the problem of communication costs completely as long as more than one person in an organisation is responsible for transacting its business.

Recently, organisations with flattened structures have gained favour as a solution to reducing the fragmentation of information associated with the hierarchical firm. In their book on endogenous growth theory, Phillipe Aghion and Peter Howitt draw upon the work of P. Bolton and M. Dewatripont to provide a formalised explanation of why flattening the organisational structure reduces the degree to which information is decentralised within an organisation and thus also reduces communication and processing delays.³³

While flatter organisations arguably do address some of the information inefficiencies of the hierarchical organisational form, Aghion and Howitt also make the point that “hierarchical structures appear to be better suited to firms facing infrequent and/or predictable innovation opportunities, to the extent that they allow the organisation to take better advantage of the existence of economies of scale in direct information processing.”³⁴ In other words, there may be instances when a hierarchical structure is preferable to a flatter one. Moreover,

even assuming that in a given context it is preferable for an organisation to adopt a flattened organisational form, the costs of corporate restructuring may be prohibitively high. Thus, there remains an incentive to explore solutions to the problems of decentralisation of information within the hierarchical organisational form that look beyond restructuring. If acceptable solutions can be found, it may be possible to “level the playing field,” so to speak, between the hierarchical and flatter organisational forms. Moreover, the flattened organisational form does not do away with the problem of fragmentation of information completely, but merely reduces it by reducing the number of processors and moving them around within the organisational structure. Apparently, then, even in flatter organisations, there is a need to explore strategies for reducing the information inefficiencies associated with the decentralisation of information.

The other commonly recommended remedy to the information fragmentation problem is computerisation. Aside from the capacity to increase the efficiency of transaction processing, managers often view computers as bringing together information from disparate sources and making it more accessible. For example, in a recent article for *Financial World*, Bernard Horn writes of the importance for bank competitiveness of harnessing customer information: “. . . in today's competitive market,” he states, “customer information must be managed, so every customer interface with the bank can be handled just as if the bank's employees have full - and personal - knowledge of every customer. Given the size of the customer base and the number of transactions and interactions, *this is at the leading edge of computer systems database management.*”³⁵

Yet, as in the case of restructuring, computerisation as a solution to the information inefficiencies of large, hierarchical organisations often has proved to be disappointing. Many organisations have invested millions in information technology only to find that information is no more accessible than under previous systems.³⁶ This often is as a result of design, system and software limitations that prevent the interoperability of organisational computer systems. Many computerised systems operate on different software and hardware platforms, contain information in a variety of formats (eg, application specific files, PDF, HTML, TIF, etc.) and store information on a variety of storage media (eg, hard drive, floppy disk, CD-ROM, magnetic tape, etc.). Not all of these platforms, formats and methods of storage can be seamlessly and effectively integrated. Even with the best planning these limitations often cannot be overcome. Consequently, they often prevent organisations from defragmenting their information through the introduction of one organisational computer system or several functionally integrated computer systems. Instead, organisations are limited to several computer systems that often do not communicate well with one another. As a result, the introduction of computerisation into an organisation rather ironically can cause additional splintering of information because information storage becomes more segmented (ie, must be stored in many different computer systems or is divided between manual and computer storage systems). For instance, the head of internal audit for one international financial institution interviewed for this study noted that his company had as many as 100 different computer systems until quite recently. Most of these systems did not

share information, thus preventing organisational decision makers from easily accessing information on which to base their decisions.³⁷

While design, system and software limitations may soon be swept away as a result of new technological innovations thereby reducing the additional fragmentation of information that computers often create, it is unlikely that computerisation alone, even if systems are fully interoperable, can succeed in eliminating information fragmentation and its attendant problems. This is because systems that specialise in performing one type of function may be better designed and more flexible than those general systems designed to perform many different functions. Thus, there may always be an incentive for organisations to invest in more specialised, functionally targeted systems. Furthermore, the introduction of standards, such as communications protocols and systems interfaces, is unlikely to keep pace with the rate of technological innovation. As a result, there always may be some initial difficulty in interoperability among specialised systems and therefore some level of information decentralisation and fragmentation.

The above discussion is not meant to suggest that restructuring and computerisation should be discounted as solutions to the problems associated with the decentralisation of information but rather to illustrate their shortcomings and to suggest that organisations need to supplement these strategies with other remedies. This study argues that organisations should look to a controlled and coordinated approach to record inscription, transmission and contextualization as a complimentary solution to the information problems of large, hierarchical firms.

Computers can be used as a tool to achieve this objective, as in the case of methodologies of data warehousing which uses computer technology to collect and share data from a diversity of systems.³⁸ The subject of controlling and coordinating the inscription, transmission and contextualization of recorded information is discussed further in the following chapter.

Returning to Radner's discussion of decentralisation, the third form of decentralisation that he describes is "decentralisation of incentives," which arises because all members of a firm will not have exactly the same goal. The decentralisation of incentives ranges from members who are greedy and self-interested to simple and innocent disagreements over what is best for a given firm. Of course, the larger the number of employees, the greater the decentralisation of incentives. Thus, it is easy to see how growth, which requires that a firm take on a greater number of employees, also introduces more uncertainty because of greater decentralisation of incentives. It is the notion of decentralisation of incentives that permits a synthesis of New Institutional and Old Institutional Economics, for individuals' incentives, and by extension the choices they make based on those incentives, are influenced, among other things, by the particular historical and cultural context (both organisational and social) of the individual.

The combination of decentralisation of information processing, decentralisation of information and decentralisation of incentives which Radner describes and which this study accepts as accurately reflecting the state of large organisations, results in a paradox. That is, at the same time as a business entity must grow and expand

in order to stay competitive, its very growth and expansion sows the seeds of its own deconstruction. This is because decentralisation and specialisation coupled with the hiring of new employees required to handle increased volumes of decisions and transactions leads to operational inefficiency. Radner writes:

I have argued that, in any but the smallest firms, no one person has all of the information relevant to the firm's activities. It follows that no one person can completely control all of those activities. This is so even in firms that are described as highly "centralized." From this fundamental observation, it follows that the individual members of the firm will have some freedom to choose their own actions. If in addition, there is some divergence among the members' goals or objectives, then one can expect some inefficiencies to arise in the firm's operations.³⁹

Thus, growth and innovation create a situation in which a principal is forced to delegate decisions and actions to a greater number of agents in order to keep pace with rising throughput. The agents to whom principals delegate decisions and actions have their own incentives that may not be in harmony with the goals of the principal or the organisation. Furthermore, because information is also decentralised the principal lacks information with which to monitor the quality and appropriateness, that is, the outcomes, of the decisions and actions taken by the agent.⁴⁰ Lack of full information on the part of the principal may allow agents to shirk their duties or play information games.⁴¹ Information games include: 1) free-riding (incompleteness of information makes it difficult to assign responsibility to individual agents for the occurrence of unsatisfactory outcomes⁴²) 2) moral hazard (a failure to take decisions and actions with due diligence because there exists no incentive to do so) and 3) adverse selection (poor quality decisions and actions crowd out high quality decisions and actions because the incentive system rewards only average quality decisions and actions⁴³).

Moreover, even when agents do not shirk their duties or play information games, their decisions and actions will reflect their historical and cultural predilections. These, if not in keeping with organisational values or goals, may cause operational inefficiencies.

Thus, as soon as the principal can no longer control the decisions and actions of the agent, agents can take decisions and actions that are deliberately or inadvertently detrimental to the business entity (eg, fraud), thereby undermining internal control and the foundations of that business entity. Moreover, irrespective of whether an agent takes decisions or actions that are at odds with the objectives of the principal or the organisation, lack of full information about what decisions and actions the agent has taken prevents the principal from making fully informed decisions as the basis of actions to be taken in his or her own right.

The problems of information asymmetry and bounded rationality not only impact upon managers' ability to control internal operations but also impact upon the ability of a firm's owners and "governors" to control senior management. In theory, the ownership and corporate governance of a firm influence its decisions and performance by appointing its managers and specifying its objectives, management compensation and incentive packages.⁴⁴ The authority to hire or dismiss senior management of a company rests largely with shareholders and boards of directors. Owners' and boards' decisions about a firm's senior management will be influenced by the performance information they receive. In the context of decentralised information processing, information and incentives,

the information received by the board may be inadequate to permit it to make the best decisions about senior managers. Setting aside possible incentives for managers to cover up poor performance, if managers themselves have inadequate information they are not in a position to report with any accuracy to owners and boards. Moreover, owners and boards will face the same problems that managers face in independently accessing adequate information if they see a need to supplement what senior managers have provided.

The same conditions hold true for firms wherein there is sufficient public interest to warrant external regulation. Regulators establish rules that set operational parameters designed to influence the range, type of decisions and actions that managers can take so as to ensure that a given firm operates in a manner that is in keeping with broader social interests. In order to ensure that firms do operate within established parameters, regulators require information about the performance of a firm. If that information is inadequate, regulators will be unable to assess the appropriateness of a firm's decisions and actions and to protect the public interest. In an environment that promotes growth and innovation (ie, an increase in the number of firms to be regulated or the types of products and services requiring rules), regulators may find it increasingly difficult to obtain adequate information to establish and maintain effective control.

Clearly, loss of organisational control, resulting from decentralisation of information processing, decentralisation of information and decentralisation of incentives presents a serious threat to the competitive viability of any business

entity and, more widely in the case of regulated industries, to the public interest. This begs the question of what to do as a remedy to this inherent organisational danger? The avoidance of decentralisation would seem to be out of the question because of the necessity for firms to grow, expand and innovate in order to remain competitive and because departmentalisation, specialisation and routinisation are usually necessary to support such growth and innovation. Decentralisation of information processing is a necessity because it is that which brings the productivity gains associated with departmentalisation and specialisation; that is, departmentalisation and specialisation are decentralisation's *raison d'être*. Similarly, human nature being what it is, decentralisation of incentives is difficult, if not impossible, to avoid, unless one is able to influence individuals' behaviour through some mechanism. This brings the discussion to the subject of accountability, for it is by means of accountability systems that behaviours ostensibly can be influenced.

Accountability and Accountability Systems

Before turning to a discussion of how accountability systems alleviate inherent problems of decentralised organisations, a brief discussion of accountability and accountability systems is in order. The literature defining and describing accountability is extensive and interdisciplinary.⁴⁵ Despite the diverse definitions and descriptions of accountability, there exist certain commonalities in how it is conceptualised. Accountability generally is pictured as having four interdependent dimensions: 1) the "who" dimension, 2) the "to whom" dimension

3) the “for what” dimension and 4) the “how” dimension. That is to say, accountability implies there is someone *to whom* we (being the *who*) are accountable for something (the *what*) and mechanisms for *how* we are accountable (the process of accounting). For example, the *Oxford English Dictionary* defines “accountability” as: “liability to give account of, and answer for the discharge of duties or conduct.”⁴⁶ Thus, to be “accountable” means to be answerable in some way for something to someone. It requires that explanations, or accounts, of something be given and, on the basis of those accounts, that actions or decisions be judged for their merit against a predefined standard of performance.

Accountability rests upon a relationship between a giver of the account (the *who*) and a receiver (the *to whom*). J.D. Stewart writes that this relationship involves “both the account and the holding to account, [and that it] can be analysed as a bond linking the one who accounts and is held to account, to the one who holds to account. That bond can be defined by reference to the persons or institutions who are accountable and those to whom they are accountable.”⁴⁷

Traditional definitions of accountability conceive of this bond as existing between a higher authority vested with the power of oversight and supervision of a subordinate. For example, the *HarperCollins Dictionary of American Government and Politics* defines accountability in one sense as: “The extent to which one must answer to higher authority - legal or organizational - for one’s actions in society at large or within one’s organization.”⁴⁸ It is possible to picture the traditional view of accountability in a corporate setting as a vertical tree in

which accounts move up through the different hierarchical levels of the corporation: from the individual worker to management, from management to the board of directors and, mediated through external auditors, from the board of directors to shareholders. In addition, in cases where the corporation's activities have a wider public impact, accounts will flow to regulators who serve as proxies for the interests of the wider society.

While the traditional view of hierarchical accountability relationships is not incorrect, it must be acknowledged that this is not the only form in which accountability exists. John Roberts writes of “socializing forms” of accountability involving informal personal lateral networks and, similarly Kristian Kreiner explores non-hierarchical forms of accountability characterised by mutuality and lateral forms of accountability.⁴⁹ Clearly we must acknowledge both formal, hierarchical and less formal, non-hierarchical forms of accountability as well as the possibility of some interplay between both modes of accountability.

For accountability to exist, then, there must be a bond of accountability between one person and another. Furthermore, the person who is accountable often is subordinate to the person who receives the account. There also must be a standard of measurement to which the accountable person is held and by which they are judged by the receiver of the account. Finally, there must be a mechanism by which the actions or decisions of the accountable person are communicated to the person to whom they are accountable, that is, there must be an account. These

four dimensions working interactively comprise what we shall refer to as an accountability system.

Linking Competitive Viability and Accountability Systems

Having discussed accountability and accountability systems, it is now possible to relate these concepts to competitive viability. A review of the historical development of formal, hierarchical systems of accountability in the US reveals that such systems came about as a means of addressing the problems of large decentralised organisations. It was in their capacity to prevent the natural loss of control as organisations decentralised and specialised that accountability systems supported the continuing competitive viability of bureaucratic organisations during America's Industrial Revolution.

Increasing widespread adoption of formal accountability systems in the world of work occurred simultaneously with the rise of the modern business enterprise, as economist Alfred Chandler has outlined in *The Visible Hand* with respect to economic developments in the US.⁵⁰ The modern business enterprise, characterised by decentralisation and specialisation, became increasingly prevalent in the US from the mid-nineteenth century in response to a need for new methods of work coordination and control brought about by what economic historian James Beniger refers to as a "crisis of control." This crisis was the result of new technologies arising out of the Industrial Revolution. The growth that took place in the US in the mid-nineteenth century - spurred on by the technological

innovations of the Industrial Revolution – required new control technologies in order to handle increased throughput in material processing. According to Beniger, this requirement gave rise to “the most important control technology” of the age: bureaucracy, that is, organisational forms that, among other things, were characterised by more decentralisation and specialisation. He notes that:

“Although bureaucracy had developed several times independently in ancient civilizations, Weber was the first to see it as the critical new machinery – new, at least, in its generality and pervasiveness – for control of the societal forces unleashed by the Industrial Revolution.”⁵¹

The increasing pervasiveness of accountability systems alongside the rise of the modern business enterprise in the US was no coincidence: accountability was necessary in order to maintain control over the new decentralised organisational structures, especially since ownership and management were now separate. In an organisational setting comprised of many hierarchical levels wherein boards of directors delegated the decisions about the operation of the firm to professional managers and these managers increasingly delegated decisions and actions to workers at lower levels of the firm’s administrative hierarchy, there existed a need to have some means for boards to control managers and managers to maintain discipline over workers. It was this need to which the men who devised the modern formal and hierarchical organisational accountability systems responded.⁵² For example, Colonel Roswell Lee when he took command of the Springfield Armoury in 1815 centralised authority and responsibility in the Office of the Superintendent and devised and put into operation a set of controls that

assured accountability for material and for the quality of the end product.⁵³ The introduction of these practices into the nineteenth-century world of work led to a transformation that subsequently resulted in the development of the modern system of work coordination and control through financial and management accounting, reporting and auditing.⁵⁴ Accountability systems are, therefore, inextricably a part of and linked to internal control in decentralised and specialised organisational settings.

How Accountability Systems Function to Maintain Organisational Control and Support Competitive Viability

When they operate effectively, accountability systems make human performance visible through processes of writing and examination. In making human performance visible, they permit the evaluation or grading of that performance against assigned measures. In this way, by capturing and quantifying human performance, accountability systems work to reduce the uncertainty of less precise methods of assessment. The point of examination, grading and writing is not only to permit assessment but also to encourage performance that conforms to the prescribed standards of assessment. As Philip Tetlock writes: “. . . accountability is a critical rule and norm enforcement mechanism . . . The fact that people are accountable for their decisions is an implicit or explicit constraint upon all consequential acts they undertake.”⁵⁵ In this sense, accountability is both a combination of the “is” (assessment of performance) and “ought” (prescribing what that performance should be).⁵⁶ The threat of some undesirable consequence of failing to achieve the prescribed level of performance (eg, humiliation,

expulsion from the organisation, etc) or a sense of responsibility is, ostensibly, what drives individuals to conform.

Figure 1 summarises how accountability systems function as feedback mechanisms by which organisational control and coordination - and by extension, organisational stability and viability - are achieved and maintained. In this diagram, workers are shown as being one of the inputs of organisational transformation systems, that is, systems designed to perform the organisation's operating functions. In a bureaucratic setting, transformation systems exist at each level of the organisational hierarchy. Those involved in the decisions and actions that result in transformations comprise the "who" aspect of accountability. The "to whom" aspect is built into management and control systems in the form of those who govern transformation systems. In a corporate setting, for example, these might include the organisation's management, its shareholders, and external regulators in organisations undertaking activities that have a broader social impact. Goals, standards and organisational norms, shown as feeding into management and control systems at the top of the diagram, comprise an important part of the "what" aspect of accountability as the measures against which individuals' actions and decisions are judged. These goals, standards and organisational norms in turn will reflect broader societal goals, standards and norms. The "how" dimension is represented by the feedback loop which carries information about actions and decisions taken by the people producing outputs (the "who" of accountability) to the system governors (those "to whom" others are accountable) and back to those producing outputs. This loop performs a

critical organisational function, for without it the organisation’s governors would be unable to detect and correct problems in actions and decisions taken by those within the organisation. Moreover, they would have no basis upon which to make decisions of their own.

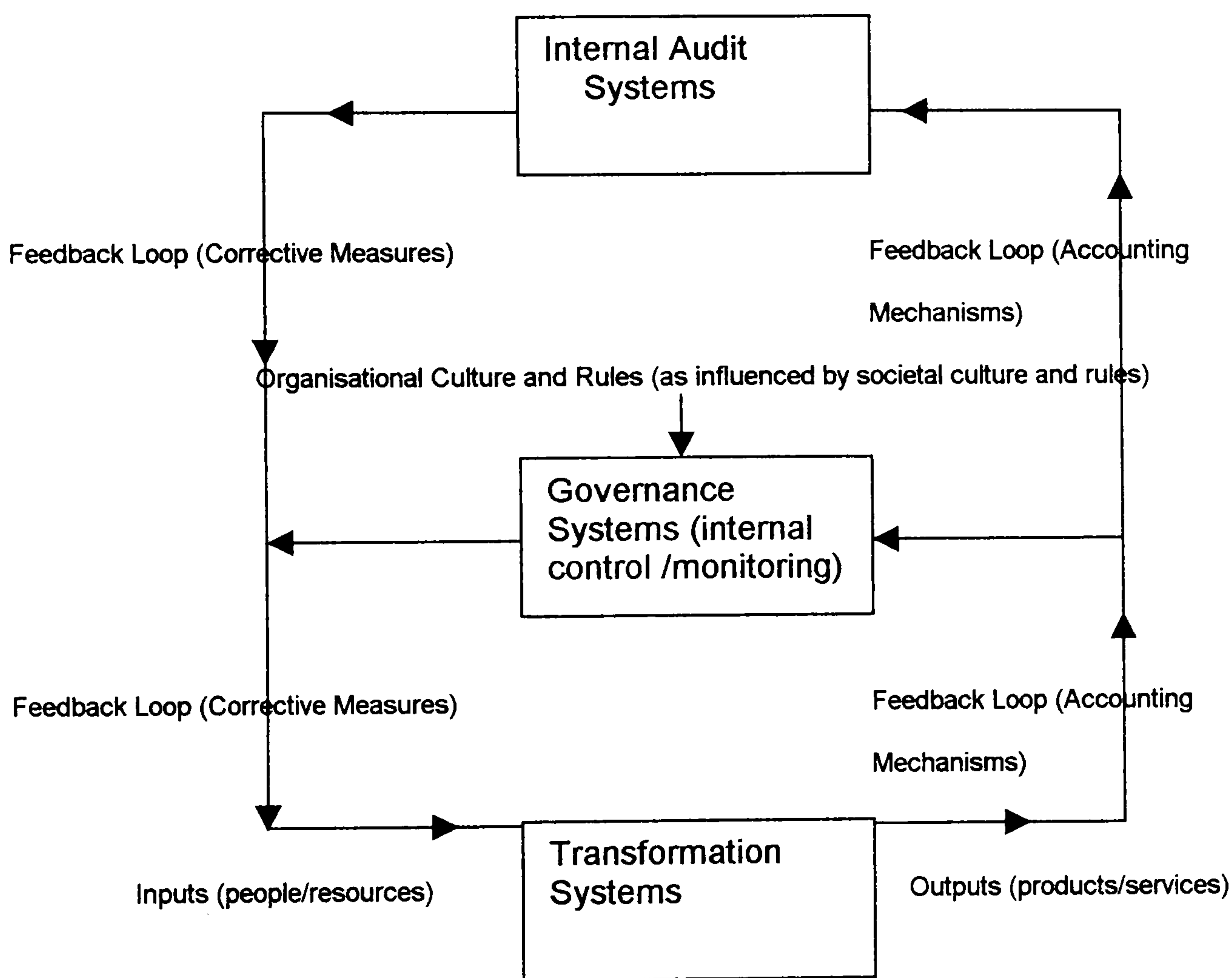


Fig. 1. The Accountability System

So critical has maintaining control become to the viability of organisations that most of a certain size now have an internal audit department with responsibility for ensuring that internal control systems operate effectively. Internal audit serves

as a sort of controller of the controllers. Figure 1 shows how internal audit functions as the negative feedback mechanism that maintains control over an organisation's management and control systems, including accountability systems. It is by means of internal audit that imbalances and problems in management and control systems usually can be detected and fixed. Once again, accountability is critical to the operation of this negative feedback loop, as it provides the conduit for information about how well internal controls are functioning and the effectiveness of decisions and actions taken by the members of the organisation. Without this conduit, the regulators of business systems would be less likely to detect internal control issues before serious consequences begin to materialise. With effective systems of accountability, internal auditors can detect issues in advance of the occurrence of "life" threatening organisational problems and thereby make corrections to internal controls before the organisation's operations become seriously impaired.

Debating the Usefulness of Accountability Systems in Maintaining Internal Control and Supporting Competitive Viability

While modern systems of accountability were introduced into the business environment to help maintain organisational control by constraining and monitoring workers' actions and decisions, there is some debate in the literature as to whether these systems actually achieve this goal. Despite Tetlock's assertion that accountability constrains consequential acts, Katrine Kirk and Jan Mouritsen point out that knowledge of being controlled through accountability may cause people to behave subversively. For example, they may try to evade discipline

through structuring the account so that it presents a more favourable picture of performance or by explaining, justifying and excusing performance as represented in the accounting numbers by challenging the standards by which they are measured.⁵⁷ The realisation that members of an organisation may engage in “counter-disciplinary” tactics has given rise to strategies such as standard accounting procedures aimed at limiting the ways in which accountable persons can manipulate accounting figures. Another strategy is evident in more recent management trends such as the development of organisational vision statements, team building and the like that seek to strengthen organisational culture so that the individual internalises organisational performance standards. Despite the introduction of strategies to bolster the effectiveness of accountability in the face of individuals’ subversive actions or to more closely align organisational and individual objectives, there is still no guarantee that accountability will succeed in constraining individuals’ acts.

Accountability also fails to achieve its goal if individuals are not concerned with adhering to prescribed standards of measure, which Kristian Kreiner suggests may sometimes be the case. Lack of concern with meeting performance targets may result if incentives or sanctions for failing to meet targets do not outweigh other incentives or motivations influencing the individual. For example, if an individual sees an opportunity to gain financially through fraud and also sees that this act is unlikely to be detected or punished, the individual may have sufficient incentive and motivation to commit the fraudulent act despite organisational policies and societal laws that forbid it.⁵⁸ However, this suggests some inherent weakness in

the accountability system, since in effective systems, individuals' actions are detected and judged and appropriate consequences (ie, those that are likely to encourage certain behaviours and discourage others) are meted out.

This study argues that accountability systems support the competitive viability of organisations by counteracting inherent control problems of decentralised organisational forms. However, might accountability actually undermine the competitiveness of a firm? John Roberts makes just this case, arguing that traditional hierarchical forms of accountability encourage workers to develop a highly individualised (ie, selfish) mentality, defensive patterns of communication and a lack of wholehearted commitment that can threaten commercial success rather than enhance it because the work of contemporary business enterprises demands and benefits from collaboration and teamwork.⁵⁹ He writes:

Against the backdrop of an intense, pervasive and highly complex interdependence of action both within organizations, and between organizations and the communities within which they operate, the individualized mentality that is the condition and consequence of hierarchical forms of accountability seems simply inadequate and inappropriate.⁶⁰

However, Roberts does not go as far as to suggest that accountability systems be abandoned, merely that organisations adopt more socialising, lateral forms to bring the “instrumental” and “moral” aspects of accountability back into alignment. This, Roberts argues, will better support competitive viability because lateral forms of accountability promote the collaboration and teamwork so necessary to success in the current business environment.

At times Roberts waxes a little too lyrical on the virtues of lateral forms of accountability, suggesting that these informal networks “potentially offer alternative sources of identity and most importantly confirm self in a manner that emphasizes the interdependence of self and other.”⁶¹ Nevertheless, he does acknowledge that lateral forms of accountability can suffer from their own schisms and conflicts, such as “ . . . possibilities of deep personal animosity that can infect relationships between colleagues, or the local abuse of power in the form of favouritism, or victimization. The possibility of racial or sexual abuse or other forms of ‘scapegoating’ in which a group can engage, or of group collusion or corruption that can threaten its responsibilities to the wider organization.”⁶² Though probably not typical of lateral accountability relationships, Roberts gives these rather serious organisational afflictions a passing nod. In the final analysis, it is only possible to conclude that both hierarchical and lateral forms of accountability may have their “dark” sides. The side that manifests likely depends upon the values underpinning human interaction within the organisation (ie, whether accepted values promote competition or cooperation), no matter if that interaction is worker to co-worker as in lateral forms of accountability or worker to management as in hierarchical forms of accountability.

The writings of Roberts, Kirk and Mouritsen, and Kreiner all suggest that accountability systems are imperfect instruments for maintaining organisational control and point to another means of resolving the organisational dilemma caused by decentralisation of information processing, information and incentives, that is: *trust*.⁶³ If principals could simply trust the agents to whom they delegate authority

for decisions and actions there would be no need to enforce organisational discipline by means of accountability. Relying on trust certainly would seem to be a more humanistic, less instrumental approach to management. In fact, some argue that formal accountability mechanisms are symptoms of social decay.⁶⁴ Trust, however, takes time to develop, and in a business environment that encourages rapid growth and thus the hiring of many new workers with unknown incentives, business survival may preclude the luxury of developing trust. That is to say, by the time those relationships have developed managers may have lost control over operations already. So, it seems that, imperfect as it is, accountability systems may be a “necessary evil” as a means of behavioural control.

There is another reason why organisations cannot dispense with accountability. Accountability systems also serve as a crucial conduit of information, information that is needed for managers to make decisions and take action and which may be difficult to obtain in large, hierarchical organisations due to decentralisation of information. As noted earlier in the discussion, flattening the organisation hierarchy may reduce decentralisation of information and ease problems of information accessibility, but this is not always an appropriate option. Moreover, the introduction of computers, often seen as a solution to the problem of decentralisation of information, perversely may further fragment information rather than bring it together and make it more accessible. Accountability systems, and the process of accounting by which they operate, serve as a means of channelling information in a hierarchical organisation across its spatial and temporal barriers. That being said, however, accounts often fail to transcend

these barriers with the result that essential information does not flow to organisational decision-makers. Understanding why this should be so brings the discussion to the relationship between record keeping and accountability, which is the subject of the next chapter.

Finally, accountability systems may be seen as being fundamental to the constitution and binding together of organisations. Social theorist George Herbert Mead has written that it is the process of becoming conscious of and answerable for how others see us that shapes the personality and constitutes the individual's "self".⁶⁵ Accountability casts back a reflection that the individual uses as a means of self-examination and identity formation. Harold Garfinkel writes that accountability serves the same purpose for organisations:

Any setting organizes its activities to make its properties as an organized environment of practical activities detectable, countable, recordable, reportable, tell-a-story-aboutable, analyzable - in short, accountable.

Organized social arrangements consist of various methods for accomplishing the accountability of a settings' organizational ways as a concerted undertaking. Every claim by practitioners of effectiveness, clarity, consistency, planfulness, or efficiency, and every consideration for adequate evidence, demonstration, description, or relevance obtains its character as a *phenomenon* [author's emphasis] from the corporate pursuit of this undertaking and from the ways in which various organizational environments, by reason of their characteristics as organizations of activities, "sustain," "facilitate," "resist," etc. these methods for making their affairs accountable-matters-for-all-practical-purposes.⁶⁶

Through the process of accounting and accountability, the organisation evolves its identity and takes its shape. In holding the organisation together and, indeed, constituting it, accountability systems must be seen as fundamental to the ongoing existence and therefore competitive viability of any business enterprise.

Conclusion

This chapter has presented the first part of a theoretical framework linking competitive viability, accountability and record keeping. It has argued that competitive viability is the ability of a firm to operate with sufficient efficiency to avoid failure and ensure survival in a competitive market. An organisation's ability to operate efficiently, it has been argued, naturally comes under pressure as it expands and innovates in order to maintain its competitive position. While strategies of decentralising and specialising help organisations to process a greater number of transactions as they grow and expand, these strategies also lead to information related problems – information asymmetry and bounded rationality - that undermine the efficiency of organisations by weakening managers' ability to control their business operations and make effective decisions. Drawing upon the historical development of formal accountability systems in the US, this chapter has suggested that such systems serve as critical mechanisms for mitigating the effects of information related problems associated with decentralisation and specialisation. Having established a theoretical link between competitive viability and accountability in this chapter, the discussion in the following chapter turns to the relationship between accountability systems and record keeping in order to complete the theoretical framework.

End Notes

¹ William J. Blaumol and Alan S. Blinder, *Economics: Principles and Policy* (Fort Worth, TX: The Dryden Press Ltd., 1997), 59-60.

² Blaumol and Blinder, 63-64.

³ P. Aghion and P. Howitt, *Endogenous Growth Theory* (Cambridge, Massachusetts: MIT Press, 1998), 268.

⁴ For example, in the “Schumpeterian” economic model, competitive viability rests on growth and innovation, innovation that requires investments in research and development. For a detailed discussion of this theory, see P. Aghion and P. Howitt *passim*.

⁵ For example, even though there are a number of global standards commonly used for measuring bank competitiveness, measuring bank competitiveness by profitability is problematic since there are so many different ways to determine profitability. All of these measures provide different answers to the question “who is the best?” These include (to name only a few): measuring Q ratios (the ratio of the market value of a firm to its book value); return on assets (the ratio of earnings to total assets); return on equity (the ratio of earnings to total equity); equity capital-to-assets ratios; value added; price-earnings ratios (the ratio of the firm’s market share divided by the firm’s earnings per share); ratios of assets to outputs (eg, the services banks provide); and productivity. Each has its relative advantages and disadvantages. See Shelagh Heffernan, *Modern Banking in Theory and Practice* (West Sussex: John Wiley & Sons, 1996), 30-36 and 123-162 for a discussion of the different ways of measuring bank productivity and competitiveness.

⁶ John Teye, “The New Institutional Economics and Its Implications for Development Theory,” *The New Institutional Economics and Third World Development*, eds. John Harriss, Janet Hunter and Colin M. Lewis (London: Routledge, 1995), 53

⁷ Adam Smith first described the operation of a market system as being led by an “invisible hand.” For a discussion of Smith’s observations, see Blaumol and Blinder, 62.

⁸ Blaumol and Blinder, 75.

⁹ Blaumol and Blinder, 76-78.

¹⁰ Blaumol and Blinder, 80-82.

¹¹ European Bank for Reconstruction and Development, *Transition Report 1999: Ten Years of Transition* (London: ERBD, 1999), 132. The study measured enterprise performance in 3,000 enterprises in 20 countries of the region and assessed such indicators of performance as new product development and sales growth.

¹² See Herbert Simon, *The New Science of Management Decision* (NY, NY: Harper & Row, 1960).

¹³ For a comparative analysis of the neo-classical and NIE models, see Appendix 5 of this study.

¹⁴ ERBD report, 132.

¹⁵ Howard Stein, “Institutional Theories and Structural Adjustment in Africa,” *The New Institutional Economics and Third World Development*, eds. John Harriss, Janet Hunter and Colin M. Lewis (London: Routledge, 1995), 109

¹⁶ Gareth Morgan, *Images of Organization* (New York: Sage Publications, 1986), 81.

¹⁹ Stein, 124.

¹⁸ Stein, 124.

¹⁹ Appendix 5 presents a comparative analysis of the neo-classical, New Institutional and Old Institutional economic models.

²⁰ Aghion and Howitt, 11

²¹ Ibid.

²² In *The Wealth of Nations*, Smith made observations about the departmentalised and specialised production process in a pin factory: “One man draws out the wire, another straightens it, a third cuts it, and a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper.” He goes on to write that “I have seen a small manufactory of this kind where ten men only were employed . . . Those ten persons could make among them upwards of forty-eight thousand pins in a day . . . But if they had all wrought separately and independently . . . they certainly could not each of them have made twenty, *perhaps not one pin in a day*.” See Adam Smith, *The Wealth of Nations* (New York: Random House, 1937), 4.

²³ Aghion and Howitt, 462.

²⁴ Roy Radner, “Hierarchy: The Economics of Managing,” *Journal of Economic Literature* 30 (September 1992): 1383.

²⁵ Radner, 1384

²⁶ Radner, 1392-93.

²⁷ Radner, 1384.

²⁸ Radner, 1402

²⁹ Radner, 1402.

³⁰ Michael Hammer and James Champy, *Reengineering the Corporation: A Manifesto for Business Revolution* (NY, NY: HarperBusiness, 1993), 28.

³¹ Gilbert Probst, and Bettina Büchel, *Organizational Learning* (Hemel Hamstead: Prentice Hall Europe, 1997), 67-71.

³² Steve Thompson and Mike Wright, “Corporate Governance: The Role of Restructuring Transactions” *The Economic Journal* 105 (May 1995): 680-703.

³³ Aghion and Howitt, 463.

³⁴ Aghion and Howitt, 465.

³⁵ Bernard Horn, “Forward through customer focus,” *Financial World* (August 1999): 21.

³⁶ For example, see Jim Breuer et al, “Why Information Technology Isn’t Enough,” *Forbes Magazine* (August 1999): special advertising supplement and also Stephen Flowers, *Software*

Failure: Management Failure – Amazing Stories and Cautionary Tales (Chichester, UK: John Wiley & Sons Ltd, 1996), which features a number of case studies of information system project failures.

³⁷ Subject B-7, personal interview, London, England, March 11, 1999.

³⁸ Robert Till, "Data Warehousing Methodology," unpublished report, INFACCT Australia Party Ltd., 22 July, 1997.

³⁹ Radner, 1404.

⁴⁰ Radner, 1384

⁴¹ Radner, 1404.

⁴² Radner, 1404.

⁴³ Hal R. Varian. *Intermediate Microeconomics: A Modern Approach* (New York: W.W. Norton & Company, 1999), 645-649.

⁴⁴ ERBD report, 138.

⁴⁵ A number of these writings is cited in the bibliography of Kevin P. Kearns, *Managing for Accountability* (San Francisco, CA.: Jossey-Bass Inc., 1996).

⁴⁶ "Accountability," *The Oxford English Dictionary*, 2nd Ed., Vol. I.

⁴⁷ J.D. Stewart, "The Role of Information in Public Accountability," *Issues in Public Sector Accounting*, Anthony Hopwood and Cyril Tomkins eds. (Oxford: Philip Allen, 1984), 16.

⁴⁸ Kearns, 35.

⁴⁹ John Roberts, "From Discipline to Dialogue: Individualizing and Socializing Forms of Accountability," *Accountability: Power, Ethos and the Technologies of Managing*, Rolland Munro and Jan Mouritsen eds. (Boston, Massachusetts: International Thomson Business Press, 1996), 50. Kristian Kreiner, "Accountability on the move: the undecidable context of project formation," *Accountability: Power, Ethos and the Technologies of Managing*, eds. Rolland Munro and Jan Mouritsen (London: International Thompson Business Press, 1996), 100.

⁵⁰ See Alfred Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1977).

⁵¹ Beniger, 6.

⁵² According to Keith Hoskin, these men were not, as might be expected, businessmen but ex-cadets who had been influenced by pedagogic practices at the US Military Academy at West Point. Hoskin maintains that the development of the noun form accountability and the beginning of a pervasive use of accountability systems in bureaucratic organisations was linked to the writing, grading and examining practices of elite eighteenth century institutions of higher education (eg, Gottingen, Cambridge and Glasgow Universities).⁵² As he writes:

These practices included: *examination*, as the formal testing of human activity, *quantification*, the putting of numbers on the activity tested, and *writing*, in the sense of producing an archive of activities, tests, results and judgements (author's emphasis). [Hoskin, 267]

Elite eighteenth century educational institutions introduced the new pedagogic practices in order to eliminate some of the uncertainty about which students should be considered “best” under fluid, semi-oral systems of examination. Hoskin maintains that writing, examining and grading seeped into the practices of new institutional and economic forms, such as modern government and corporate business enterprises, as means of administrative coordination and control with the result that “. . . prisons, schools, hospitals, factories, universities, state bureaucracies and corporate oligopolies most resemble each other, as both the social world and the self become more and more subject to a writing, grading and examining which together ensure the meticulous and continual circulation of plans, examinations, reports, feedback and feed forward evaluations - knowing me, knowing you, in our respective truths.” [Hoskin, 265-282].

⁵³ As Alfred Chandler explains: “Lee achieved control over production and accountability for work in two ways. One was through careful inspection. Each worker placed his ‘private mark’ on each piece he made. After the assistant master armorer had inspected and passed the piece, he put his mark on it next to that of the worker. The supervisor also submitted a monthly office report which listed pieces passed and rejected . . . The second method of control was through bookkeeping, that is, by accounting for each transaction carried on within the enterprise involved in production through the use of standard double-entry accounts.” [Chandler, 73-74].

⁵⁴ Chandler, 266.

⁵⁵ Philip E. Tetlock, “Accountability: The Neglected Social Context of Judgement and Choice,” *Research in Organizational Behaviour* 7 (1985): 307, cited in Kreiner , 85.

⁵⁶ Hoskin, 270-273.

⁵⁷ See Joni J. Young, “Getting the Accounting ‘Right’: Accounting and the Savings and Loan Crisis.” *Accounting, Organizations and Society* 20.1 (1995): 55-80 and Katrine Kirk, Katrine and Jan Mouritsen, “Spaces of accountability in a multinational firm,” *Accountability: Power, Ethos and the Technologies of Managing*, Rolland Munro and Jan Mouritsen eds. (London: International Thompson Business Press, 1996), 251.

⁵⁸ Kreiner argues that individuals’ lack of concern for meeting performance targets does not necessarily have to have negative repercussions for an organization, as it would in the case of fraud; instead, she argues that it may spur additional interaction that circumvents the limitations of a given situation. In this way, accountability becomes an “inspiring constraint” that promotes dialogue as opposed to a limiting one, as in Tetlock’s conceptualisation. See Kreiner , 98.

⁵⁹ Roberts, “From Discipline to Dialogue”, 55.

⁶⁰ Roberts, “From Discipline to Dialogue”, 56.

⁶¹ Roberts, “From Discipline to Dialogue”, 55.

⁶² Roberts, “From Discipline to Dialogue”, 51.

⁶³ See also Michael Power, “The Audit Society,” *Accounting as Social and Institutional Practice*, Anthony G. Hopwood and Peter Miller eds. (Cambridge: Cambridge, University Press, 1994), 299-316. This paper, drawing on post-modernist sociological theory, argues that the audit function is as much a social and economic construction as a technical practice. It suggests that audit is emerging as a principle of social organisation in the UK. The conditions of emergence for this audit society are in transformations in public sector management and newly prominent ideals of quality, governance and accountability. The audit society is theorised in four primary themes: new rhetoric of accountability and control; new obscurities in the name of transparency; a politics of regulatory

failure; and the construction of auditees. Audit is part of the new cosmetics of risk in which newly perceived dangers and risks can be minimised or neutralised through audit. Audit is a conservative force in the sense of being a knowledge system which filters and appropriates environmental disturbance under the norm of auditability, in the process displacing structures of trust. More recently, Onora O'Neill has challenged the usefulness of accountability and advocated a return to the philosophy of trust [See Onora O'Neill, "The Philosophy of Trust," BBC, Radio 4, Reith Lecture Series, http://www.open2.net/trust/oneill_on_trust/oneill_on_trust1.htm, accessed May 17, 2002].

⁶⁴ See for example, Roberts, "From Discipline to Dialogue" and Hoskin.

⁶⁵ George Herbert Mead, *Mind, Self and Society*, Vol. 1, edited by Charles W. Morris (Chicago: University of Chicago Press, 1934).

⁶⁶ Harold Garfinkel, *Studies in Ethnomethodology* (Cambridge: Polity Press, 1984), 33-34.

Chapter Three: Accountability and Record Keeping – Mapping The Relationship

Introduction

The previous chapter made the case that organisational growth, spurred on by the requirement to innovate in order to remain competitively viable, often results in some degree of decentralisation and specialisation in an organisation. In turn, decentralisation leads to a natural loss of organisational control due to the problems of information asymmetry and bounded rationality. Formalised accountability systems have come into increasing use as a remedy to the inherent loss of control that accompanies decentralisation because they facilitate the internal control and decision-making necessary to maintain organisational stability as organisations grow and decentralise in order to remain competitively viable.

The Reliance of Accountability Systems upon Records

The effective operation of accountability systems relies upon the communication of information. That is to say, communication of information is the basis of producing and reproducing the structures and procedures of organisational accountability systems and the means by which standards of accountability are conveyed. It is also the means by which reports on actions and decisions, on the one hand, and judgments on these actions and decisions, on the other, are exchanged between parties in an accountability relationship.

In relatively uncomplicated organisational settings, such as small owner-operated business enterprises or single units of a large industrial conglomerate, information needed to support accountability can be communicated orally, such as by means of one person telling another what they have accomplished. However, across large, complex organisations the oral communication of information generally is insufficient to maintain adequate accountability and control over operations because those who hold others to account are spatially and temporally at a distance from those they hold to account. That is to say, workers may be reporting to organisational regulators (internal or external) from which they are far removed either physically – as when managers in branch offices are accountable to managers at a head office - or structurally - as in the case of workers whose accountability to senior management is mediated through several organisational layers.

Spatial distances introduce temporal distances as well. In other words, it takes longer for accounts to reach organisational centres of regulation across geographic and organisational spaces. Moreover, in large, relatively formal and complex organisations and social settings, the temporal distance between the moment when an accountable person takes an action or decision and the moment when that person is held to account becomes increasingly attenuated.

Given the spatial and temporal distances over which business rules and accounts must travel to support the operation of accountability systems in complex social and organisational settings, sole reliance on oral forms of communication can give rise to blockages or unintended distortions in communicated meaning.¹ As a result, large, relatively formal and complex organisations rely upon written communication to supplement oral forms by virtue of its generally accepted greater capacity for reliably communicating meaning over spatial and temporal distances. Large, hierarchical organisations therefore depend upon the production, distribution and preservation of recorded information as a form of communication that has greater potential to deliver authoritative information about an organisation's operating rules and expected standards as well as to provide relatively trustworthy accounts of the actions and decisions of accountable persons.

The types of recorded information that support systems of accountability can be separated into two categories in keeping with the purposes they serve: 1) constitutive and 2) instrumental. That is to say, recorded information serves both as a means of establishing the structures and procedures of accountability systems

(constitutive) and the means by which accountability systems operate (instrumental).

First of all, the framework of accountability systems must be constructed or constituted as part of the systems for governing an organisation.² Systems of organisational governance, or management and control, set forth all of the various dimensions of accountability: who will be accountable to whom, for what and how. The structure of accountability systems in large organisations is usually set forth in written policies, procedures, directives, objectives and related forms of documentation.

These types of documents also provide a vital means of communicating an organisation's operating standards for production and internal control in that they codify business rules so that there is less confusion about how work within an organisation is to be done. In most cases, internal standards and expectations inform an organisation's rules of operation; however, in organisations in which there is a public interest external regulators may set standards and expectations that inform the organisation's business rules. Without codification of the rules of operation, confusion, inconsistency or ambiguity about expected performance levels can arise, leading to operational inefficiencies that undermine competitive viability.

As discussed in chapter two, accountability is intended to serve both to constrain individual action as well as to measure and evaluate it. In the same way, written business rules serve both to constrain or guide the action of individuals as well as

provide a standard against which individuals' actions and decisions can be measured and judged. As such, these documents provide authoritative evidence about an organisation's operating rules and standards. This evidence is crucial to the effective operation of systems of accountability: without it there is always the possibility that individuals who fail to perform in accordance with organisational operating rules and standards, for example those involved in dishonest activities, can plead ignorance of expected levels of performance. Thus, lack of evidence that operating rules and standards have been clearly communicated to all relevant persons can render organisational accountability systems ineffectual.

Just as directions on actions and decisions flow down the organisational hierarchy in bureaucratic settings in the form of policies, procedures, directives and the like, numerical and narrative accounts of actions and decisions flow up through the "chain of command" as part of the all-important feedback process that sustains organisational control and decision making by means of accountability.

An example drawing upon the accounting done for an organisation's financial transactions serves to illustrate the account production and communication process that takes place in the typical operation of organisational systems of financial accountability. An organisation will create and receive many different types of records in the process of transacting its financial business, for example, sales and purchases invoices; debit and credit notes for returns; bank deposit slips and cheque counterfoils; receipts for cash paid out and received; and correspondence containing other financial information.³ What traditionally is known as *accounting* for these transactions begins as they are grouped or

classified and entered into books of original entry, such as sales journals, purchases journals, return outwards journals, return inwards journals, cash books and so on, in which each transaction that has taken place is recorded. The entries in these books of original entry then are posted to various *accounts* in double entry ledgers, for example sales ledgers, purchases ledgers, general ledgers and the like. Periodically, the double entries in each of the ledgers will be balanced resulting in the production of a trial balance. Large organisations also may produce control accounts or total accounts that serve as a type of trial balance for each ledger.

The process of balancing the accounts serves to verify the accuracy of the books of account, though it will not necessarily detect all types of accounting errors, such as errors of omission in recording a transaction. The correction of account imbalances may require researching individual financial transactions. It is considered extremely important that errors be corrected as quickly as possible, as any that go undetected will lead to inaccuracies in the organisation's balance sheet and may skew its calculation of profits. The process of detecting and correcting errors often entails returning to the source documents to gather additional information to discover the origin of a problem and thereby make corrections. Once the source of the error is found, the error is corrected using double entry accounting procedures.

The trial balance forms the basis for preparation of the profit and loss account for the period and, subsequently, the balance sheet showing the organisation's liabilities, assets and capital, which together form the final accounts of the business. Production of the profit and loss account and the balance sheet also

requires the making of adjustments before computation of the final figures, such as for bad debts and the depreciation of fixed assets, following generally accepted accounting principles. These final accounts provide a basis for management decision-making and are presented to those to whom the organisation's managers and directors are accountable, for example, shareholders and external regulators.

In addition to the production of financial accounting information in the final accounts, management may require and produce other management accounting information for internal use, such as cash flow analyses, capital investment forecasts, budget variance reports, excessive debt tracking and similar types of presentations or views of the accounts of the organisation's various business transactions. Such reports aid in monitoring organisational performance and provide an additional basis for decision-making.

As this example illustrates, the production and communication of accounts required to support systems of financial accountability is a complex process. We might think of this process as an accounting and accountability chain, in which the creation of documents while transacting financial business is the first link in the chain and each successive record produced in accounting for that financial transaction another link. Using this analogy, it is easy to see how one weak link, or a weakness in one type of record, can affect all the others and, ultimately, break the accountability chain.

Table 3-1: Types of Recorded Information and How They Support Accountability Systems

Class of Function	Description of Function	Documentary Form(s)
Constitutive Function	Records and communicates the structure and operating rules of the accountability system	Policies, procedures and directives
Instrumental Function	Communicating operating standards	Policies, procedures and directives (informed by legislation, regulation, professional standards and other relevant external guidelines coupled with documented internal management practice and organisational goals and objectives, etc.)
Instrumental Function	Reporting on actions and decisions (the giving of an account)	Records of business transactions (Source documents) Reports on actions and decisions related to business transactions produced using management information and other reporting systems
Instrumental Function	Assessment of actions and decisions based on accounts and instructions for corrective measures, where appropriate	(Changes to) policies, procedures and directives

The above table shows the types of documentary forms typically associated with and supporting the operation of accountability systems. Here it must be noted that by certain archival definitions, policies, procedures, standards and similar types of recorded information needed to support accountability systems do not actually fall within the class of documents known as *records*. For example, in her study on Diplomats, Luciana Duranti, refers to these documents as *literary sources* providing the basis of juridical systems.⁴ She reserves the use of the term records for those documents that constitute a juridical act or those that constitute written evidence of a juridical act that was complete before being documented.⁵ That is,

use of the term records is limited to documents that effect and/or provide evidence of an official transaction. In a similar vein, Australian archivists Frank Upward and Sue McKemmish define the “archival document” (a term they use to refer to both records and archives) as follows.

The archival document can be conceptualized as recorded information arising from transactions. It is created as a by-product of social and organisational activity in the course of transacting business of any kind, whether by governments, businesses, community organisations or private individuals. It is therefore defined by its contextuality and its transactionality. The documentation of transactions may be in any storage media and is increasingly an electronic process.⁶

With definitions of the record traditionally emphasising transactionality, it is possible to argue that policies, procedures and similar types of documents are not records because they establish the terms and conditions of official transactions but are not themselves involved in or outcomes of those transactions. On the other hand, traditional archival definitions of the record also focus on the record’s evidential quality. Thus, it is also possible to argue that such documents are records because they provide evidence concerning the terms and conditions of organisational transactions. In addition, standard records management texts typically cite the management of policies, procedures and directives as being within the records manager’s purview.⁷ Since these types of documents are the concern of the records manager, it is possible to argue that they should be included in that class of documents known as records. In the final analysis, however, it does not matter whether we describe these documents as records, as literary sources or as something else. Their inclusion in the scope of this study is justified by the important role they play in the constitution and operation of accountability systems.

As in the case of written business rules, it is a matter of perspective as to whether the types of recorded information generated as a result of the typical financial accounting process qualify as records. In the accounting literature, the types of documents that accountants describe as *source documents* are what by traditional archival measures would be considered records, since they are documents produced in the course of carrying out particular financial transactions and provide evidence of those transactions.⁸ In accounting, on the other hand, the record is the entry documenting a financial transaction in an organisation's books of account.⁹ By strict archival definitions of the term record, however, these entries would not qualify as a record. It is even dubious whether subsequent management and financial reports based on an organisation's books of account would be considered records by archival standards. The archivist Hilary Jenkinson asserted that records are unique because they are not created in the interest of or for the benefit of posterity.¹⁰ Accounting reports, in comparison, are created with a mindfulness and attention to an audience removed by space and time from the transactions to which the reports refer. This difference between archival and accounting terminology is not simply a question of semantics. Rather, it reveals the important point that there is no absolute record, that the meaning and conceptualisation of the record is dependent upon an individual or group's perspective and context.

Taking this view, the important question becomes not "what is a record?" but "how does this particular individual or group perceive of a record?" As archivist Preben Mortensen writes, "the meaning of words and concepts are not, as in the

Platonic tradition, secured by the shared form of things to which we apply the same name, but are a matter of the ways in which we use concepts in practice.”¹¹

Why is Mortensen’s viewpoint significant? It is because this viewpoint permits a broader scope for analysis, as it frees us from the limitations of traditional archival or accounting conceptualisations of the term that, because they do not encompass certain documentary forms, can limit understanding of the relationship between these documents, the types of documents that archivists or accountants traditionally view as being records, and the operation of accountability systems in particular settings. However, by also viewing these documents through the lens of traditional archival and accounting conceptualisations of the record, we are, at the same time, able to see the limits of other discipline, group, or individual understandings of the relationship between the creation and keeping of certain forms of recorded information and the operation of accountability systems. This approach permits an exploration of the relationship between financial accountability and record keeping that goes beyond what is immediately observable by strictly adhering to either archival or accounting conceptualisations of the record to uncover underlying assumptions that mask deep structures beneath the surface of organisations as social systems, structures with effects which generally may be unobserved and unintended by those within these organisations.

The Qualities Required of Records for Effective Accountability

It has been established that systems of accountability depend for their operation upon the communication of organisational business rules and standards as well as

accounts of actions and decisions of accountable persons. These systems will only operate effectively if records - such as policies, procedures and accounts - possess the characteristics that effectively communicate an organisation's business rules and permit its management to see what they need to see of their business transactions in order to hold organisational actors to account and make sound decisions.

It is difficult to point to any definite set of qualities that records must possess in order for accountability systems to work effectively without reference to a particular context, though a number of qualities, such as trustworthiness, timeliness, relevance, and comparability, can be mentioned.¹² Rather than there being a number of standard characteristics which records must always possess in the service of effective accountability, the purpose and context of the accountability system must determine what qualities are required of the records needed to support it. As South African archivist Verne Harris states in relation to the use of records as evidence of societal processes, “. . . the requirements for

evidence are specific to time and place . . .”¹³ In the same manner, the requirements of records for accountability are specific to the purpose and context of the accountability system.

For example, for the purposes of effective financial management, managers of a business enterprise may want to track their bad debts. In order to do so, they will need to communicate reliably how the organisation defines a bad debt and the level of such debt that is acceptable. They also will rely on subordinates to pull together reports on the status of customer accounts in relation to the organisation’s definition of bad debt. In order to meet management’s internal control and decision-making needs, the organisation’s bad debt reports will need to possess certain characteristics. For instance, the reliability of the report may be determined by the extent of its comprehensiveness, accurateness and completeness in depicting the status of the organisation’s customer accounts in relation to organisational definitions of what constitutes bad debt. Bad debt reports also may need to present information in a form that permits comparisons over time so that managers can determine whether the number of bad debts is increasing or decreasing in relation to organisational limits and past experience. Depending on the level of risk, managers also may need these reports to reflect daily, weekly, monthly or quarterly bad debt positions, that is, whatever time frame permits them to take action to correct deviations from acceptable levels of bad debt quickly enough to avoid operating problems.

Though an organisation's management may require records to possess certain characteristics in order to support effective accountability, most often the identification of these requirements is not an explicit and conscious organisational exercise. Moreover, managers seldom explicitly and consciously identify the kinds of record keeping systems that will be required to actually produce records of the necessary quality. Rather, they generally assume that such systems are in place. Oftentimes, these systems are not in place, and, as a result, the organisation's record making and keeping practices fail to produce records of the quality needed to support organisational accountability systems.

The Trustworthiness of Records

The above noted problem is especially evident in relation to the quality of trustworthiness. Trustworthiness is arguably one of the most common and important qualities required of records for accountability purposes no matter what the organisational context. Ironically, it is a quality often taken for granted in records.

As previously noted, records generally are perceived as having greater capacity to convey intended meaning reliably across space and time and it is for this reason that the giving of an account, in large, hierarchical organisations has come to depend on the production, distribution and preservation of many forms of written communication. Generally, archival thinking on the relationship between records and accountability rests on a belief that the usual circumstances of record creation

give assurances of reliability and authenticity, and therefore of trustworthiness, a quality essential to giving of and holding to account.

The ideas underlying this belief are succinctly expressed in the business records exception to the hearsay rule (ie, the rule of law that allows for the legal admissibility of what would normally be considered second-hand information), the origins of which signalled society's growing reliance on records in the transaction of social and organisational business. Under this rule, courts generally accept business records as trustworthy evidence of transactions for the following reasons:

- Their form would have had to have been complete to affect the business transaction for which the record was created;
- The regular making of a particular record calls for accuracy;
- The record creator generally would have had no reason at the time to manipulate, substitute or falsify the record for some future, unthought of purpose;
- The business enterprise had to have been relying on the record for its business purposes, so would have noticed that the record was not reliable or authentic if that were the case; and
- The record was created under a duty to an employer and therefore there is the risk of censure or disgrace if errors are made.¹⁴

A record created in the normal course of business that is contemporaneous to the events to which it refers, for example a voucher, is therefore usually accorded a level of *documentary truthfulness*. Even those records that are not created to effect a business transaction but are written up afterwards as a record of an event or transaction, such as minutes of a meeting or financial ledgers, if created reasonably close to the events or transactions to which they refer generally are considered to reflect the documentary truth.

To say that the courts, and by extension society, generally consider records to be trustworthy because they meet the above described criteria is not the same as saying that records *are* trustworthy and always meet these criteria, of course. A record's documentary truthfulness may be challenged legally through demonstrating the ways in which it fails to meet the criteria of the business records exception to the hearsay rule. Thus, what we might want or require a record to be (ie, trustworthy evidence of a business transaction) should not be confused with what a record may, in reality, be (ie, less than trustworthy evidence of a business transaction). Deliberate or unintentional deviations from the conditions of record inscription that ensure reliability can mean that records are quite unreliable as evidence of a business transaction.

Yet, traditional archival conceptualisations of the record have fused *ought* with *is* by suggesting that reliability and authenticity are somehow inherent in an immutable nature of the record, that is, they somehow define its *recordness*.

Archival theorist Hilary Jenkinson argued that the impartiality of records arises from the circumstances of their creation as a means of carrying out activities and not as ends in themselves and that, consequently, records are “inherently . . . capable of revealing the truth about those activities” and bearing “authentic testimony of the actions, processes, and procedures which brought them into being . . .”¹⁵ Following Jenkinson's line of thought, Canadian archivist Heather MacNeil writes “To protect the value of records as evidence, it is necessary to preserve their *originary* [sic] qualities, that is, the qualities with which the records are endowed by the circumstances of their creation, accumulation, and use in the

conduct of personal or organisational activity. These qualities include naturalness, uniqueness, interrelatedness, authenticity, and impartiality.”¹⁶ Along similar lines, the literature on accounting generally portrays the preparation of accounts as a neutral technique that does no more than objectively record and produce a “true and fair” view of the results of organisational activity.¹⁷

These conceptualisations reify records and accounts. They separate records and accounts from the social and technological contexts that lead to their creation until they are no longer recognisable as socially and technologically constructed entities but, instead, become imbued with an almost god-like power and objectivity. However, the traditional archival and accounting viewpoints leave an important question unanswered: why it should be necessary to protect a quality that is apparently already part of the inherent nature of the record and the account? If, these qualities define records and accounts, then they should exist in them as a natural state and need no protection. But clearly these qualities in records and accounts do require “protection,” or rather, careful cultivation.¹⁸ Thus, instead of being immutable aspects of the nature of records or accounts, impartiality and authenticity are ideals. Like Plato’s shadow images, actual records and accounts exist as pale and imperfect reflections. They are, however, no less records or accounts.

In both the accounting and archival fields, there is a growing body of literature influenced by philosophers such as Michel Foucault, Jürgen Habermas, Anthony Giddens, and Jacques Derrida that offers a critique of the view that records and accounts of organisational activity provide impartial and objective evidence.

Rather, authors of this body of literature clearly see records and accounts as social and technological constructs.

Critiques of the traditional view of accounting have focused on explorations of the use of accounting information in the production and reproduction of systems of organisational accountability to show how accounts are constructions that issue and express relations of power. This revisionist view of accounting sees the function not as a set of practices that mirror organisational reality but rather as practices that shape organisational reality, along the lines of Harold Garfinkel's ideas discussed in the previous chapter. John Roberts writes, for example that "As a vehicle for hierarchical forms of accountability, accounting information appears as just one means of negotiating and defining the significance of events, as a method for expressing and enforcing expectations, and as a resource in the enactment of particular power relations."¹⁹

Roberts goes on to explain that the way accounting information has been institutionalised as the most important, authoritative and telling means whereby organisational activity is made visible ironically has rendered invisible social and technological influences on the meaning of accounting records and given rise to acceptance of accounting information as objective numerical representations of facts.²⁰ He states:

. . . this invisibility lies in accountings [sic] capacity to present information as if it were objective fact; the detail can be contested but not its basic capacity to reflect the truth. Like the scientific method it imitates, the knowledge that accounting produces is presented as somehow independent of the interests of those who produce and use it.²¹

Recent accounting and archival research reveals, however, that accounts and records are anything but neutral, objective and disinterested.

Much of the literature critiquing accounting's claim to neutrality and objectivity has focused on accounting standards, regulations and conventions that govern accounting measurement and classification and how these construct accounting "facts". Joni J. Young's article on the American savings and loan crisis, for example, discusses how accounting standards and regulations reflected changing political interests and objectives of regulators.²²

Arguably, the tendency to focus on the way in which accounting data are classified, aggregated and presented in accounting reports using interpretations of accounting standards and regulations has led to two important gaps in understanding accounting records as social and technological constructs. First, it overlooks the ways in which other aspects of the complex process of accounting construct the meaning of accounting records. Second, it leads to a tendency to overestimate the degree to which construction of the meaning of accounts, and expressions of power relations in the construction of meaning, is a conscious and intentional process. Though the manner in which accounting data are reported undeniably is an important and essential feature of the production of meaning in accounts and the production and reproduction of accountability systems in organisational settings, it is only one aspect of a complex account production process. The meaning of accounts evolves not just as a result of the conscious process of classifying and reporting financial transactions but throughout the complex process of record inscription, transmission, contextualization and

interpretation over space and time. Thus, the meaning of the account at any given moment may be less the result of a social actor's conscious intention to portray the "facts" in a particular light than the unintentional result of colliding interests underlying mediations that take place over time throughout the account production and communication process, particularly when the effects of these interests and mediations on the meaning of accounting records is not consciously understood nor subject to explicit managerial coordination and control.

In explorations of cracks in the image of accounting records as neutral and immutable recent archival literature challenging traditional positivist views of the record provides a framework for looking beyond just the way in which data are classified according to accounting principles and standards. The traditional archival view of the record is that its author creates it to effect consequences as part of official transactions.²³ The author of the record, therefore, fixes in the record his will in terms of the desired consequences to which he wishes to give effect.²⁴ Assuming none of the problems that can affect reliability are introduced, either deliberately or unintentionally, into the record's inscription, the traditional view holds that the record then becomes the stable vehicle by which the author's intended meaning and documentary truth about a transaction is communicated over space and time. Everything is nice and neat and linear.

The ideas of communications theorist Mark Poster suggest that the traditional archival conceptualisation of records may have grown out of an era in which print media was the predominate form of communication. As Poster writes: "print culture constitutes the individual as a subject, as transcendent to objects, as stable

and fixed in identity, in short, as a grounded essence.”²⁵ In contrast in the electronic age, “Electronic culture promotes the individual as an unstable identity, as a continuous process of multiple identity formation . . .”²⁶ In the same way as the electronic age shifts our understanding of the individual, so, too, does it change our conceptualisation of the record.

The electronic age has moved the epistemological and ontological discussion surrounding the record away from viewing it as stable object toward seeing it as something mutable and unstable. In a recent review of Trevor Livelton’s *Archival Theory, Records and the Public*, Canadian archival educator Tom Nesmith challenges us to think of the record as:

. . . an evolving mediation of understanding about some phenomena – a mediation created by social and technical processes of inscription, transmission, and contextualization.²⁷

Essentially what Nesmith and a growing number of archivists influenced by post-modernist theory are saying is that the record is a vessel for communicated meaning, a meaning that is socially and technically constructed and that is not static but evolves over time as the record is created, kept and used.²⁸

From this perspective, the record appears to be the result of an endless set of choices made by social actors, those who originally inscribe the record as well as those who are involved in its subsequent transmission and contextualization, among them record keepers. These social actors make choices about whether to inscribe an account of a transaction, the form it will take, and the degree to which that inscription will be contextualized (eg, through preservation in an official organisational record store), how and in what form. They also make choices

about the technological means of inscribing, transmitting and contextualizing the record, whether they choose to use paper, computers or some other means, with all the limitations and problems inherent in the chosen technology.

As noted in the previous chapter, individuals have different incentives for their actions and choices. In addition, a range of social factors will influence these incentives. The term *social factors* refers to all factors pertaining to norms of behaviour and systems of belief in social settings. This might also be referred to as culture.²⁹ Culture relates both to the culture of the wider society, to the norms and beliefs of defined groups (ie, management or professionals), and to organisational culture. Together, the socially influenced choices social actors make in how they inscribe, transmit, contextualize and even interpret records have the effect of constructing the communicated meaning of the record over time.

The effect of social mediations on the communicated meaning in records is further compounded by the specialisation and decentralisation that, to varying degrees, accompany all large, complex organisations. Decentralisation complicates the relationship between the “facts” of a transaction, the record creator’s representation of those facts in a record, and the meaning communicated to subsequent readers of the record in the following way. The greater the number of information processors in an organisation the greater the number of social actors involved in the creation or receipt and keeping of records of an organisation’s business transactions. The greater the number of social actors involved in record creation and keeping, the more varied their motivations and choices concerning processes of record inscription, transmission and contextualization. Thus, the

more varied is organisational record creation and keeping behaviour. In this way, decentralisation increases the diversity of interests that shape the meaning of a particular record over time, as a number of different processors each with their own interests and record keeping behaviours will carry out processes of record creation and keeping for single records or groups of records documenting organisational transactions. These diverse influences on record making and keeping can, from a broader organisational perspective, cause intentional and unintentional, and often problematic, deviations in documentary truthfulness.

When we peek behind the record as object, we are reintroduced to the human in the record, that is, to its “*subject-ivity*”. Of course, whenever, human beings as social actors enter the picture things become messy, unruly and often conflict-ridden, as conflict theorists have observed. Ian Carib sums it up in the following way: “Society is like a more or less confused battle ground. If we watch from on high, we can see a variety of groups fighting each other, constantly forming and reforming, making and breaking alliances.”³⁰ From this point of view, the meaning of records is a manifestation of the power struggle, both conscious and unconscious, between competing interests as the record is created, kept and used. In this confused battleground, it is a challenge to analyse what relation the record bears to the phenomenon it is about or to its inscriber(s)’ original intended meaning. Each individual involved in record making, keeping and use is motivated by different influences – personal interests, organisational culture, professional values, societal mores and so on – in the production of the account. Moreover, differing and often conflicting motivations can lead individuals to create and keep records in ways that are in direct conflict with what is required to

produce the quality of accounting information needed to sustain systems of organisational and social accountability.

In addition, there is no watching from on high for record keepers, as they are unavoidably pulled into the scrum even as they try to observe from the sidelines. As one with responsibility for reserving and preserving records for future use, the record keeper does not simply passively hold the record but participates in shaping the terms of its original inscription and what happens to the record subsequently through processes of re-inscription for preservation, recurrent transmission and contextualization. As such, the record keeper shapes the record's meaning and becomes its co-author. It was Brien Brothman, influenced by the ideas of postmodernist literary criticism and philosophy, in particular the French philosopher Jacques Derrida, that first disquieted archivists with the suggestion that record keeping was something more than an uninvolved act of custodianship. Reflecting on archival practice, Brothman has written that it "forms an integral part of the record," also asserting that the typical record keeping and archival function of ordering records "also served to transfigure, if not transform, the record."³¹ The interventions of the record keeper, therefore, can take the record further from the meaning intended by the record's original author and from providing the kind of evidence of business transactions required to meet organisational or societal objectives.

To further highlight the record's shadowy relationship with documentary truth, Brien Brothman, in his exegesis of the writings of Jacques Derrida in relation to archival theory, asserts: "the writing that humans do functions as much to obscure

and *defer* [author's emphasis] meaning as to fix it permanently."³² Writing is a form of temporal delay that seeks to capture an intended meaning in some ineluctable form that transcends the vagaries of time. However, as such, it is incapable of suspending the effects of time: "Time, creator of difference, inevitably defers or postpones arrival at stable structure – whether of languages, writing, societies, records or record systems."³³ Brothman adds:

For Derrida, the very premises upon which our commitment to writing rest themselves establish limits to communication that writing cannot breach. To write is already to concede the necessity of placing our fate in others' hands, so to speak. Writing, by its nature, suspends its own consummation of meaning. The certification of meaning as "the meaning" of a particular piece of writing inevitably requires the endorsement of a subsequent reading. It is other readers' interpretations that ratify the "original", "genuine" meaning of the work.³⁴

Thus, each successive reading of the record undertaken as part of record keeping processes or by those who use the record to serve particular purposes (eg, organisational or social accountability) has the potential to imbue the record with new meaning, meaning that may be very different from that intended by the record's original inscriber.

Clearly, post-modernist revisions of thinking about accounts and records have implications for accounting records as evidence of business transactions in support of accountability. Despite the expectation of greater trustworthiness of records as a form of communicating organisational accounts of actions and decisions, the post-modernist perspective calls the impartiality and objectivity of recorded accounts into question. This viewpoint forces us to see that the record does not offer objective impartial evidence of facts but is, after all, merely an account of organisational actions and decisions shaped both intentionally and unintentionally

by the interests of social actors involved in the record's inscription, transmission, contextualization and use over time.

Nevertheless, impartiality and authenticity in records, as well as other desirable qualities, such as reliability and timely accessibility, are essential to the effective production and operation of accountability even as we recognise that these qualities are impossible to attain because of the mediated character of the record as a form of communication. As Verne Harris points out, at best the record serves only as one window on organisational and social processes.³⁵ However, the record is, in the end, as Harris acknowledges, one of the best windows we have. To suggest that records are not trustworthy, therefore, is not to suggest that we should not and cannot rely upon them as evidence of business transactions. It is only to suggest that they must be seen as accounts of these business transactions, not as the undisputed "truth" of those transactions. In clinging to the idea of records as impartial and objective, archivists' traditional thinking about the record may be too limited to arrive at workable solutions to the problem of making sense of records as evidence of business transactions. Evidence of a business transaction the record can be, even by its absence or in a fragmented form, but in this regard it must be given a critical reading with an appreciation and understanding of the messy behind-the-scenes social interaction of often conflicting interests that goes into the record's evolving and mediated formation with every new inscription, transmission, contextualization and reading. Archival theorist Eric Ketelaar describes this type of knowledge about the record as "social and cultural archivistics," being the work of understanding the processes involved in the choices made about archiving.³⁶ This study aims to contribute to such an

understanding and appreciation of the processes of archiving by empirically exploring record making and keeping in the context of Jamaican commercial banks in the course of exploring the relationships among competitive viability, accountability and record keeping.

Of Record Keeping and the Quality of Records

Having gained a deeper appreciation of the record as a socially and technically mediated form of communication that is much less trustworthy than we might like to think, what next? Are we simply to throw up our hands in despair, acknowledging, in the words of Brien Brothman, a record's unavoidable "unraveling into promiscuous textuality?"³⁷ This attitude would be acceptable if we did not have to concern ourselves with the practical information requirements of effective accountability and the need to ensure that accountability systems operate well in order to keep our organisations from succumbing to a natural dissolution.

But since we do have to concern ourselves with such matters, we must build our dams against chaos. This brings the discussion to the subject of record keeping. From the moment in time when the first record was created, the record keeping function also came into existence. For, as noted already, the making of a record seeks to fix meaning over space and time, and to fix meaning implies somehow keeping it intact in the face of forces that would lead to its erosion or obliteration. Hence, there can be no record creation without at the same time bringing into being record keeping.

The aim of record keeping is to ensure the preservation of records so as to “preempt the intrusion of any discordant elements from the past and present and foresee all future contingencies of interpretation or misinterpretation that might threaten or strain the binding conditionalities of textual meaning and challenge documentary truthfulness.”³⁸ The record keeper’s role, then, is one of salvaging the record from its own deconstruction by fixing meaning and carrying that meaning forward through distance and time as evidence of the organisational business transactions to which the record refers.

This way seems to suggest that record keeping is concerned with the record only after it has been inscribed or created. However, as record creation and record keeping are two sides of the same coin, the boundaries between the two activities and the individuals involved in undertaking them have always been blurred.

From the outset of record making, scribes were responsible both for making records on behalf of others, the record’s actual authors, as well as keeping them. Even now, record keeping may be simply a matter of the record’s original inscriber retaining a file copy of a document for his or her own reference in an individualised way with little consciousness about how this process shapes the record’s evolving meaning for subsequent readers of the record, if there should be any.

Alternatively, one person may create the record and another may be responsible for keeping it. This may be a simple case of a record creator delegating the

function of record keeping to a direct subordinate such as a secretary. On the other hand, the record keeping function may take place in the context of a systematic organisational records management programme concerned with the controlled management of all records throughout their life cycle from creation and receipt, to transmission, use, storage, retrieval and final disposition in the interests of administrative efficiency and organisational and social accountability. Just as with the record, the record keeping function varies according to context. It may be undertaken with differing degrees of systematisation in service of a variety of interests.

Though it is now often the case that someone other than the original inscriber of the record performs the record keeping function, the record keeper who ignores the process of record creation risks failing to preserve the meaning of the record. In the electronic age, computers as a technology of inscription present new challenges to preserving and fixing the meaning in records. Digital records can be altered or deleted more easily or their content lost due to technological obsolescence and the fragility of methods and technologies of inscription and storage. As a result, record keepers find themselves becoming involved in prescribing the terms and conditions of record inscription so as to ensure that later preservation does not become a moot point.

Beyond the need to ensure that the new electronic technology does not interfere with the preservation of the meaning of records, there exists another rationale for record keepers to become involved in the process of record creation. This is because the interests of record creators may prevent them, either intentionally or

unintentionally, from creating the quality of records needed to support the effective operation of organisational systems of accountability. Thus, there is a need for the record keeper to address record creation as someone independent of the interests of the record's inscriber to ensure that organisational interests in record creation are served. The record keeper must intervene to assist the organisation to identify the quality of records required to support its accountability systems, to ensure that records are created in order that organisational transactions become visible for accountability purposes, and finally, to see that records are created and kept in a way that supports documentary truthfulness over space and time. None of these objectives may be the focus of records creators, who have their own interests and concerns and may therefore intentionally or unintentionally avoid creating records or create them in ways that undermine the trustworthiness of records as evidence of organisational transactions.

This role of assisting in the identification and safeguarding of organisational interests in record creation is particularly important in large, complex organisations where the interests of record creators may be quite diverse and in conflict with those of the organisation. If organisational interests in record creation have not been identified or if no one is looking out for those interests, the quality of records may not support the requirements of effective accountability.

This is a role that can hardly be undertaken when the record creator and keeper are one and the same or even when the record keeper is someone who primarily represents the record creator's interests (eg, a secretary keeping records on behalf of an employer) since there may be a conflict between the record creator's and the

organisation's interests. In addition, in undertaking both this task and the task of preservation of meaning over time, record keepers ideally must be capable of understanding the ways in which their own interests and actions shape documentary truthfulness and affect the quality of the record, for it is only through this awareness that record keepers can recognise the distortions in meaning that their own actions might introduce and how these actions subtly shape and shift the meaning of the record. Again, this mindfulness is unlikely to be a feature of record keeping undertaken by record creators themselves or by anyone less than a highly trained record keeping professional.

Thus, in large, complex organisations the spatial and temporal distances that the communicated meaning in the record must span and new technologies of record creation and storage generally require a more systematic approach to record keeping if the information requirements of organisational accountability systems are to be met. Systematic record keeping refers to a record keeping system wherein organisational information requirements have been identified, systems have been established to support the attainment of those requirements, and trained record keepers, as distinct from record creators, have the capacity to understand and control processes of record creation and preservation in support of meeting organisational information requirements.

When record keeping is unsystematic there is the potential for a state of organisational record keeping *anomie* to develop. Anomie occurs when there is no widespread acceptance of clear organisational standards reflecting a set of shared values, beliefs and norms that consciously and systematically encourage

record creation and keeping behaviour that produces organisationally intended meaning in records. It is also due to the absence of a record keeping regulator to ensure that organisational record keeping interests and requirements are met. Significantly, such organisational anomie often occurs when there has been rapid social change, the very conditions that will be present as an organisation grows, decentralises and specialises in order to remain competitively viable.³⁹ In this state, record creation and keeping behaviour may become increasingly individualised as the number of information processors grows. This may make it increasingly difficult for an organisation's governors to direct social actors' record creation and keeping behaviour toward organisational ends. Thus, social actors are likely to create and keep records in ways that reflect an increasing diversity of values, beliefs and norms of behaviour, whether influenced by values of the wider society, a particular group or aspects of the organisation's culture. As such, their record creation and keeping choices may be in growing conflict with what is in the best interest of maintaining organisational accountability and control, even when that is not the individual record creator's or keeper's conscious intention.

To the extent that record keeping is undertaken as a systematic function with an awareness of the interests and mediations that shape the meaning of records, even those of record keepers themselves, as well as an awareness of organisational information requirements, through controlling processes of record inscription, transmission and contextualization, record keeping offers the promise of overcoming the forces of organisational record keeping anomie to ensure the production of records that are meaningful in terms of sustaining organisational accountability.

Conclusion

This chapter has presented the second part of a theoretical framework linking competitive viability, accountability and record keeping. It has argued that accountability systems in large, hierarchical organisations depend on records as the means of constituting such systems as well as the means by which accounts are exchanged between parties in an accountability relationship. The chapter argued that, though the effective operation of organisational systems of accountability depends upon records having certain characteristics, such as trustworthiness, the many interests that shape the meaning of records as they are socially and technologically produced during processes of inscription or re-inscription, transmission, contextualization and use over space and time intentionally and unintentionally may prevent records from possessing the qualities needed to sustain effective accountability. Systematised record keeping is therefore needed as a means of understanding and controlling influences on the meaning of records at the point of creation and throughout the span of time for which they are kept and used in order to ensure production of the quality of records needed to support effective operation of accountability systems.

End Notes

¹ This is not to discount oral forms of communication. As Kristian Kreiner's research indicates, oral communication can be an important means of interpreting and shaping the ways in which recorded accounting data are used within an organisation [see Kristian Kreiner, "Accountability on the Move: the Undecidable Context of Project Formation," *Accountability: Power, Ethos and the*

Technologies of Managing, Rolland Munro and Jan Mouritsen eds. (London: International Thompson Business Press, 1996): 85-102]. Similarly, Verne Harris, in discussing the South African Truth and Reconciliation Commission, shows how oral testimony can be more reliable in some ways than official records (See Verne Harris, "Law, Evidence and Electronic Records: A Strategic Perspective from the Global Periphery," paper presented at the XIV International Archives Congress, Seville, Spain, September, 2000).

² Luciana Duranti identifies this as an organisation's *legal system*. She writes: "Every social group ensures an ordered development of the relationships among its members by means of rules. Some of the rules of social life arise from the ad hoc consent of small numbers of people; others are established and enforced by an "institution," that is, by a social body firmly built on common needs, and provided with the means and power to satisfy them. The latter rules are compulsory; their violation incurs a sanction or penalty. A social group founded on an organisational principle which gives its institution(s) the capacity of making compulsory rules is a juridical system. Thus, a *juridical system* is a collectivity organized on the basis of a system of rules. The system of rules is called a *legal system*." (Luciana Duranti, "Diplomatics: New Uses for an Old Science (Part II), *Archivaria* 29 (Winter 1989-90): 5).

³ This discussion is informed by Frank Wood and Alan Sangster, *Business Accounting 1*, 8th ed., (London: Financial Times Professional Ltd., 1999).

⁴ Duranti, 5.

⁵ Ibid, 9.

⁶ Sue McKemmish and Frank Upward, eds., *Archival Documents: Providing Accountability Through Recordkeeping* (Melbourne: Ancora Press, 1993), 1.

⁷ See, for example, chapters on the management of directives, policies and procedures in Wilmer O. Maedke, Mary F. Robek, and Gerald F. Brown, *Information and Records Management*, 2nd ed. (Encino, CA: Glencoe Publishing Co., 1981) and Betty R. Ricks, Ann J. Swafford and Kay E. Gow, *Information and Image Management*, 3rd ed. (Cincinnati, OH: South-Western Publishing Co, 1992).

⁸ See use of the term in Wood, 148.

⁹ See Wood, 3-4.

¹⁰ Hilary Jenkinson, *A Manual of Archive Administration*, 2nd ed. (London: Percy Lund, Humphries & Co. Ltd., 1965), 2-6.

¹¹ Preben Mortensen, "The Place of Theory in Archival Practice" *Archivaria* 47 (Spring 1999): 6.

¹² The Basle Committee on Banking Supervision in its paper on enhancing bank transparency cites the need for the following information quality characteristics: comprehensiveness, relevance, timeliness, reliability, comparability and materiality [See Basle Committee on Banking Supervision, "Enhancing Bank Transparency: Public Disclosure and Supervisory Information that Promote Safety and Soundness in Banking Systems (Basle, Switzerland: Basle Committee on Banking Supervision, September, 1998)].

¹³ Harris, 19.

¹⁴ Written documents came to be accepted as evidence before the courts with the first business records exception to the hearsay rule covering shop-books of tradesmen. The hearsay rule came into being around 1500 as juries began to rely on the evidence presented by witnesses before them in court, rather than by going out and obtaining it themselves from an informed person, as had been the earlier practice. [See John Henry Wigmore, *A Treatise on the Anglo-American System of*

Evidence in Trials, 3rd Ed., Volume 5 (Boston: Little Brown & Company, 1940), 9-19; 347-351; 369-370.]

¹⁵ This definition, taken from the School of Library, Archival and Information Studies, University of British Columbia, "Select List of Archival Terminology," neatly summarizes the Jenkinsonian perspective. It is cited in Heather MacNeil, "The Context is All: Describing a Fonds and its Parts in Accordance with the Rules for Archival Description," *The Archival Fonds: From Theory to Practice*, Terry Eastwood ed. (Ottawa, ON: Bureau of Canadian Archivists, 1992), 202. Jenkinson's ideas are elaborated in his book *A Manual of Archive Administration*, 2nd ed. (London: Percy Lund, Humphries & Co. Ltd., 1965), 2-6.

¹⁶ MacNeil, 201.

¹⁷ John Roberts, "The Possibilities of Accountability," *Accounting, Organizations and Society* 16.4 (1991): 355-359.

¹⁸ A paper by Verne Harris that discusses the use of records as evidence in South Africa's Truth and Reconciliation Commission is an interesting case in point. In this paper, Harris describes how South African courts overlooked the traditional rule against hearsay to allow for oral testimony in support of land claims as it was felt that the official records were too greatly prejudiced in favour of the ruling elite. (See Verne Harris *passim*).

¹⁹ Roberts, 355.

²⁰ Roberts, 359.

²¹ Roberts, 359

²² Joni J. Young, "Getting the Accounting 'Right': Accounting and the Savings and Loan Crisis," *Accounting, Organizations and Society* 20.1 (1995): 55-80.

²³ Jenkinson, 4.

²⁴ Luciana Duranti, 6-9.

²⁵ Mark Poster, "The Mode of Information and Postmodernity," *Communication Theory Today*, David Crowley and David Mitchell eds. (Stanford, Calif.: Stanford University Press, 1994), 174.

²⁶ Ibid.

²⁷ Tom Nesmith, "Still Fuzzy, But More Accurate: Some Thoughts on the 'Ghosts' of Archival Theory," *Archivaria* 47 (Spring 1999): 145.

²⁸ Another leading proponent of this viewpoint is the South African archivist, Verne Harris. See, for example, his book *Exploring Archives: An Introduction to Archival Idea and Practice in South Africa*, 2nd Ed. (Pretoria, National Archives of South Africa, 2000), in which he writes that the meaning of the words *archives* and *records* is a site of contestation. His own understanding of the term is heavily influenced by the writings of Michel Foucault and Jacques Derrida, who see the archive as a construction expressing relations of power (see pp. 18-23).

²⁹ See, Collins Dictionary of Sociology entry under social and culture ["Culture" and "Social", *Collins Dictionary of Sociology*, 2nd Ed. (Glasgow: HarperCollins Publishers, 1995)].

³⁰ Quoted in M. Haralambos and M. Holborn, *Sociology: Themes and Perspectives* (London: Harper-Collins, 1996), 887-888.

³¹ Brien Brothman, "Orders of Value: Probing the Theoretical Terms of Archival Practice," *Archivaria* 32 (Spring 1991): 85 and 91.

³² Brien Brothman, "Declining Derrida: Integrity, Tensegrity, and the Preservation of Archives from Deconstruction" *Archivaria* 48 (Spring 1999): 70.

³³ Brothman, "Declining Derrida," 72.

³⁴ Brothman, "Declining Derrida," 70.

³⁵ Harris, 22.

³⁶ Eric Ketelaar, "Archivistics Research Saving the Profession," *American Archivist* 63.2 (Fall/Winter 2000): 326-327. Ketelaar calls for a study of what he terms "archivalization" that is the processes leading to the choices involved in archiving. He writes: "People create, process and use archives, influenced consciously or unconsciously by cultural and social factors. People working in different organisations create and use their records in different ways . . ." (p. 329). He argues that as archivists we must come to understand these processes better.

³⁷ Brothman, "Declining Derrida," 78.

³⁸ Brothman, "Declining Derrida," 79.

³⁹ The University of the West Indies, *Introduction to Sociology: Reader*, Vol. I (Bridgetown, Barbados, University of the West Indies, 1998), 116. This section of the reader discusses Emile Durkheim's study of threats to the social solidarity of industrial society.

Chapter Four: Competitive Viability, Accountability and Record Keeping - The Public Sector Analogy

Introduction

The previous chapter presented a theoretical framework linking accountability and record keeping. To date, most research on the relationship between these two phenomena has been undertaken in the context of the public sector, though JoAnne Yates' study of the use of communications technologies in American management indirectly touches upon the relationship between accountability and record keeping in a private sector context.¹ The growing body of research linking development administration, specifically public sector reform initiatives, and record keeping can be viewed as analogous to the theorised linkages among private sector competitive viability, accountability and record keeping. In establishing that these relationships are analogous, this chapter will demonstrate that the body of research on development administration and record keeping lends empirical support to the arguments advanced in this study.

Drawing the Analogy: Competitive Viability, Accountability and Record Keeping in Public versus Private Contexts

In the previous chapter, competitive viability was defined as the ability of private sector business entities to function and develop in a sufficiently efficient manner to avoid failure and ensure survival in a competitive market. Chapter two went on to argue that both environmental and internal organisational factors play a role in achieving and maintaining competitive viability. Effective decision-making and internal control are two significant contributors to achieving and maintaining competitive viability. As organisations expand and decentralise to maintain competitive market position, the quality of decision-making and internal control may become compromised unless supported by the effective operation of systems of accountability. Chapter three advanced the argument that availability of quality recorded information is critical to the effective operation of organisational systems of accountability and this objective is unlikely to be realised without appropriate record keeping accountabilities and controls. The chapter concluded that, in the absence good record keeping, the type and quality of recorded information needed to sustain effective accountability often will not be available. Without effective systems of accountability private sector entities are likely to experience operational inefficiencies and may, if these inefficiencies are serious enough, become non-viable and fail.

Usually a business entity is no longer competitively viable if it becomes insolvent, that is, when it is unable to meet its debt obligations (over the long term). Similarly,

governments may be unable to meet their long-term debt obligations and therefore might be unable to function and develop in a competitive environment.² This was the case for many developing countries in the 1980s.³ During this period a large number were unable to meet their debt obligations and, as a result, defaulted on their loans. The Third World debt crisis resulted from growing balance of payments deficits (ie, an increase in the net value of claims by nationals of overseas countries on domestic economies) to which external economic shocks in the form of the oil crisis and world depression of 1979-1983 contributed.⁴ This growing debt burden hampered economic growth and development in poorer countries.

The mounting debt crisis in developing countries, and the threat to the stability of the global financial system that this debt crisis posed,⁵ led the Bretton Woods institutions (ie, the World Bank and the International Monetary Fund) to offer loan packages linked to policy advice and technical assistance aimed at economic stabilisation and “structural adjustment.” Drawing upon by neo-classical economic theory in which markets are viewed as being perfectly competitive and operate by means of voluntary transactions on an equal basis between large numbers of autonomous, fully informed entities motivated by the desire to maximise their profits, Structural Adjustment Programmes (SAPs) sought to achieve a boost in the supply side of the economy by the removal of market imperfections to thereby redress balance of payments problems and bring prosperity to developing countries.⁶ Though applied somewhat differently in each country, SAPs tended to consist of such measures as removal of import quotas, tax and tariff reductions, a scaling back on social subsidies, reducing

government expenditure, deregulation of private sector operation, privatisation of state-run enterprises, liberalisation of exchange rate policies, use of interest rates to attract savings and constrain credit, strengthening of external debt management, increases in agricultural prices and energy prices, and removal of price controls.⁷

Very early on, the World Bank and the International Monetary Fund concluded that public sector reform was a critical component of the economic reforms aimed at achieving economic viability and development in Third World countries. The neo-classical economic theory that underpinned their development strategies supported the view that state intervention is a source of market imperfection.⁸ The consensus was that the governments of developing countries were beset by problems that prevented them from effectively implementing economic reforms. One World Bank publication noted in 1983 that:

The disarray and ineffectiveness of sub-Saharan public administrations threaten development efforts of governments and undermine their ability to carry out basic governmental functions. Capacity to make and implement policy is reduced, revenues go uncollected, the little that is collected is poorly allocated and much needed public services are poorly or not provided. The engendered crisis of governmental administration is doubly serious at a time when structural adjustment programmes are requiring key central government institutions to plan and manage fundamental transformations in the economy.⁹

Thus, the generally accepted view was that economic development in developing countries was not possible without solving the problems presented by Third World governments.

Early public sector reform initiatives concentrated on privatisation and contracting out of government services or, in cases where government services could not be

privatised or contracted out, introducing private sector management principles and practices to the public sector.¹⁰ The early emphasis on private sector approaches reflected two interrelated influences on structural adjustment policies. First, it reflected acceptance of neo-classical economic theory that saw state intervention as a factor in market imperfection. Thus, structural adjustment policies tended to focus on removal of market impediments caused by state interference in the operation of what would otherwise be perfect markets.¹¹ Second, there was a growing sense of discontent in both developing and developed countries with changes that had taken place in public administration since World War II. Governments in many countries had evolved elaborate centralised bureaucracies in response to more complex systems of administration. Over time, these governance systems became dysfunctional, being too bureaucratic and centralised to serve the purposes for which they were intended.¹² In contrast, private sector entities were viewed as being more flexible and responsive to market imperatives and, hence, served as a model of efficiency and effectiveness for the public sector to emulate.

Initially, therefore, in emulation of private sector business strategies, public sector reform initiatives often stressed cost containment and fiscal restraint over and above other objectives.¹³ Reform measures were intended to diminish the role of government in the economy, reduce the influence of permanent officials on policy and/or the policy process and make government managers emulate the private sector. The goal of these reforms was to provide greater efficiency, results, performance and value for the money spent on government operations. The new public sector

management paradigm was characterised by themes such as “empowerment”, “improving service to clients” and “strengthening efficiency in government.”¹⁴

The early emphasis of public sector reform initiatives on privatisation and private sector management principles to bring about fiscal stabilisation did not lead to significant change, however.¹⁵ More was needed to produce fundamental improvements in governance. As a result, public sector reform initiatives came to focus on the absence of accountability, transparency and the rule of law in developing countries. This shift in development strategy reflected not only the failure of earlier approaches but influences in development theory coming from the new institutional economics (NIE). Proponents of NIE, such as Ronald Coase, Douglass North and Oliver Williamson, reintroduced the state into development economics. “For North Third World countries provide examples of anti-development frameworks. Statist regulation, ill-defined property rights and other constraints restrict rather than stimulate economic activity. These conditions result in rent-seeking and redistribution, not rising productivity. Organisations that operate within Third World institutional frameworks are not inefficient; they are efficient at making a society more unproductive.”¹⁶ In Africa, as Mamadou Dia observes, the colonial legacy meant that “new states became not only bureaucratic autocracies but also economic and political monopolies, lacking in accountability, transparency and the rule of law” which prevented effective implementation of policies aimed at achieving economic reforms.¹⁷ To bring about real change in the public sectors of these countries, there emerged a consensus that accountability, transparency and the rule of law needed to

be included as cornerstones of public sector reform initiatives. For example, in 1997, the United Nations Development Programme published a policy paper - "Governance for Sustainable Human Development" - in which it stated that

The United Nations Development Programme (UNDP) has been at the forefront of the growing international consensus that good governance and sustainable human development are indivisible. And we believe that developing the capacity for good governance can be - and should be - the primary way to eliminate poverty.¹⁸

Reflecting the new consensus that good governance needed to go beyond an emphasis on fiscal restraint, the policy paper went on to define good governance as being

. . . participatory, transparent and accountable. It is also effective and equitable. And it promotes the rule of law. Good governance ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources.¹⁹

As the UNDP policy paper indicates, initiatives directed toward strengthening democratic accountability now figured largely in development strategies and reflected a growing view that governments played an important role in establishing the rules of the game by which markets operate. Hence, development strategies needed to target cleaning up these rules through reforms of overly bureaucratic and corrupt governments in developing countries.

Here, for the purposes of drawing an analogy between the linkages among economic development, accountability and record keeping and those among private sector competitive viability, accountability and record keeping discussed in the previous two chapters, we must make a distinction between the notion of democratic accountability

and good governance as these concepts apply in the public sector, and accountability and good governance as they apply in the private sector. This study defines accountability as “liability to give account of, and answer for the discharge of duties or conduct.”²⁰ In a democratic political system, elected officials govern on behalf of citizens to whom they are expected to be accountable for the way in which they govern. Thus, normative definitions of good governance include the idea of democratic accountability or government’s accountability to the people. In the private sector, by contrast, accountability to citizens, or the public, is only expected in industries that impinge upon the public interest, for example, banking (as will be discussed further in chapter five). In such cases, when democratic accountability intersects with the private sector, some form of regulation usually establishes a framework for public accountability. Consequently, in the private sector context, notions of good governance do not usually rest upon the idea of democratic, or public, accountability, but rather on accountability to shareholders and other corporate stakeholders.

In the public sector, below the level of the political directorate, public institutions (ie, government departments and agencies) theoretically serve as the administrative instruments of elected officials. Thus, public sector agencies are accountable to elected officials, and indirectly to citizens, for the way in which they operate to give effect to government policies. Similarly, in the private sector, senior managers of corporate entities are accountable to their board of directors who, in turn, are accountable to shareholders for the performance of the company. In both public and

private sector contexts there exist any number of internal administrative accountability relationships.

The main point is that at the macro level there are differences between accountability as it applies in the public and private sectors. Only certain industries within the private sector, because of the public interest in what they do, are accountable to the people, whereas the basis of democratic government is built on accountability to citizens. At the micro level, or administrative level, however, accountability in the public and private sectors operates in much the same way. Managers are responsible to a directorate – in the case of the private sector, a board of directors and, in the case of the public sector, elected officials – and there exist numerous other internal accountability relationships.

This chapter has so far been able to show that development administrators, through their policies, have recognised that there are links among continuing competitive viability which is necessary for economic development, good governance and accountability and that this link is analogous to the links that this study argues exist among private sector competitive viability, good corporate governance and accountability. Development administrators clearly acknowledge that both macro- (eg, interest rates, exchange rates, etc.) and microeconomic factors were responsible for Third World balance of payments problems and debt and that they both play a role in the competitive viability and economic development of these countries. Further, their policies reflect an understanding that good governance – a cornerstone of which

is accountability - is one of the microeconomic factors critical to establishing and sustaining competitive viability in the public sector, just as it is argued in this study that it is necessary to establishing and sustaining competitive viability in the private sector. Finally, recent policy initiatives reflect the view that accountability, being among other things a key mechanism for achieving efficiency in operations, is a precondition for economic viability and development.

An Overview of Research Linking Economic Development and Accountability with Record Keeping

Recent studies on development administration and record keeping provide empirical evidence of links among public sector reform initiatives in developing countries – with their goal of good governance, a key element of which is accountability - economic development and record keeping. Since, it is argued, the relationships among economic development, accountability and record keeping are analogous to those among private sector competitive viability, accountability and record keeping, the findings of this research offer some empirical support for the relationships posited in chapters two and three.

The body of research on public sector reform and record keeping must be placed in the context of literature on wider issues of democratic accountability and record keeping that has emerged over the last decade or so. This literature grew out of a 1989 challenge to archivists by Terry Eastwood, a Canadian archivist and former

Chair of the Master of Archival Studies Programme in the School of Library, Archival and Information Studies at the University of British Columbia, to “spirit an understanding of archives as ‘arsenals of democratic accountability and continuity’.”²¹

Australian archivists answered Eastwood’s call to action in 1992. Against a background of government and corporate corruption in the 1980s, they set about to explore the links among record keeping, accountability and the role of the archival and records management profession.²² Archivists at Monash University’s Graduate Department of Librarianship, Archives and Records, in developing a definition of archives as the conceptual framework for the integrated archives and records programmes offered by the University, advanced the notion that the effective creation of archival documents is required to “underpin the public accountability of government and non-government organisations, freedom of information and privacy legislation, protection of people’s rights and entitlements . . .”²³ A desire to explore this understanding of archival documents gave rise to a series of articles and research papers, subsequently published in Sue McKemmish and Frank Upward’s *Archival Documents: Providing Accountability Through Recordkeeping*, that linked accountability with records and information management.

Subsequently, in 1996, Justus Wamukoya presented the first of the pieces of research exploring the links between public sector reform initiatives in developing countries and record keeping in his study of records management and administrative reform

programmes in Kenya.²⁴ While earlier literature on the relationship between accountability and record keeping, in focusing on public accountability, was concerned mainly with the question of protecting the public interest, Wamukoya's study, in placing the discussion of the relationship between record keeping and public sector reform in Kenya in the context of the literature on development economics and administration, was the first to indicate that poor record keeping had negative repercussions for the economic development of a country. His study was followed by a 1997 study carried out by Pino Akotia on the management of public sector financial records and their implications for good government.²⁵ More recently, the International Records Management Trust (hereafter referred to in this chapter as the IRMT) has conducted research into the relationship between good governance and record keeping. The IRMT's study on the management of public sector financial records in sub-Saharan Africa and its impact on accountability and public sector management is of particular relevance and interest.²⁶ This body of research, in linking record keeping with public sector reform initiatives aimed at good governance and thereby economic development, lends empirical support to the idea that there are, indeed, linkages among private sector competitive viability, accountability and record keeping as put forth in this study. It is to a detailed exploration of this research that this chapter now turns.

The first of the three studies, and also the first to link development administration and record keeping, is that by Justus Wamukoya completed in 1996. Wamukoya undertook an examination of the relationship between records management and

administrative reform as implemented in the Government of Kenya. He examined current policies, procedures and techniques for, and the attitudes of various agencies in the public service to, the management of records. Using data gathered from case studies of the Directorate of Personnel Management, the Civil Service Reform Secretariat and the Ministry of Finance, he was able to demonstrate the significance of records management in underpinning policy development, decision-making and accountability in the public service, noting that:

Because of poor or inadequate record keeping systems, many developing countries today find themselves constrained in their development efforts and unable to provide efficient public services.²⁷

On the basis of his findings, Wamukoya called for the adoption of records management as a major component of administrative reform in Kenya and other developing countries as well as closer cooperation and collaboration between the Kenya National Archives and Documentation Service and the Directorate of Personnel Management in the development of policies and procedures aimed at promoting the efficient and effective management of records in the public service.

Following Wamukoya's study, Pino Akotia produced a critical examination of the relationship between public sector financial records management and good government through an analysis of the objectives, business processes and records systems of the central administration of finance in Ghana. Akotia's study offers a particularly relevant basis of comparison with the relationships explored in this study because of its specific focus on financial records. Akotia argued that public finance is a major instrument of constitutional, political and administrative control and that it

provides the basis for decision making and the implementation of government programmes. According to Akotia, financial records

. . . provide evidence of how government has managed the nation's resources. Records are the only basis for holding the Government accountable for what it does or fails to do, why and how it does it and the results achieved or targets missed. Records provide evidence of good and bad judgments displayed in adopting and carrying out public policies and of whether or not requirements for the custody and management of public resources have been met. Together with regular audits, financial records management provides the basis on which to measure government's adequacy and the degree to which it has presented itself as honest, efficient, well-meaning and accountable.²⁸

He found that, where public sector reform initiatives had included a records management component, "restructuring of the records management systems of government was crucial for improving efficiency of economic policy reforms and overall public sector management."²⁹ However, he goes on to argue that a whole range of wider reforms in relation to strengthening planning and organisational capacity in the civil service would have been enhanced had the Government of Ghana's Records Management Improvement Project been introduced earlier and been given a wider remit.³⁰

Akotia notes, in particular, that the records management reform project did not address financial records and draws the conclusion that "As a result, despite the various policy measures implemented to strengthen financial management, the overall ability of government to manage the Consolidated Fund remained weak due to the very poor and chaotic state of the existing paper-based financial records systems."³¹

According to Akotia, the costs associated with failure to manage financial records included impediments to efficiency enhancements and the process of introducing

accountability and transparency (as a means of preventing corruption) and policy formulation.³²

The IRMT's 1998 study of the link between records and financial accountability in sub-Saharan Africa is also of interest.³³ This research marked a significant step toward establishing, in a practical, concrete manner, the link between records systems and financial accountability. The results of this research are instructive for addressing the issues on which this study focuses. The IRMT study based its conclusions on data collected in The Gambia, which, until 1994, was recognised as one of the most successful democracies on the continent with a government officially committed to a programme of good governance. Despite this view, many Gambian officials and ordinary citizens recognised that there were abuses of public expenditure and that, in reality, the government was not accountable to the people. The government's lack of accountability led directly to its overthrow in a coup on 22 July, 1994. The Armed Forces Provisional Ruling Council (AFPRC), which took over the government, immediately set about enhancing transparency and promoting accountability by strengthening the role of the Auditor General and holding commissions of inquiry to identify the perpetrators of economic crime.

The IRMT research team was able to work directly alongside the investigating lawyers for the commissions of inquiry, which provided a unique opportunity to see first hand how financial records management affects financial accountability. Their work led them to conclude that lack of control of documentary evidence contributed

to weak financial controls that permitted corruption and fraud to flourish in The Gambia.³⁴

Main Findings of the Studies

The studies outlined above all provide empirical data that clearly establishes links among economic development, good governance, accountability and record keeping. Each of the studies present a number of specific findings which, because of the analogy that can be drawn between the links among economic development, accountability and record keeping in the public sector and those among competitive viability, accountability and record keeping in the private sector, shed light on how poor record keeping might affect private sector accountability and competitive viability. What follows is a discussion of the main findings of these studies organised into several broad thematic groups matching the assumptions discussed in chapter one.

Records Availability and Use

Each of the three studies presented findings on the availability and use of recorded information in support of good governance, particularly those processes and policies seen as being central to restoring national economic viability (ie, public sector financial and personnel management). In the main, all three studies concluded that important information was not available in support of these processes and policies as a result of poor records management practices. The result was that governments were

not able to fully effect public sector reforms aimed at strengthening public sector management and, in consequence, were unable to fully effect practices and policies aimed at achieving a greater level of economic development. The studies highlighted a number of critical government functions and processes negatively impacted upon by poor record keeping. These include: decision-making; personnel management; implementation of donor funded projects; expenditure control and reporting; revenue collection; economic planning; debt management; internal control and audit; corruption and fraud prevention; financial reporting; and monitoring of adherence to financial regulation and standards.

In addition to the fact that poor record keeping prevented records from being available to support key government processes and policies, these studies also found that public sector managers often did not have a clear idea of what information they actually needed in order to efficiently and effectively execute government functions, processes and policies. The same was true of donor agencies according to Wamukoya, who wrote: “. . . neither the governments nor donors fully appreciate the need to link government policy mechanisms and the information sector . . .”³⁵ Both Wamukoya and Akotia attributed this lack of understanding to governments’ and donor agencies’ failure to analyse the information required to support business processes as part of restructuring and reengineering exercises.

These studies also found that public sector officials often did not use recorded information in decision-making or analysis. Wamukoya points out that the attitudes

of senior administrators toward the use of information for decision-making undervalued the role of information and the importance of records and information management. He cites a comment by David Osborne and Ted Gaebler, administrative reform gurus, as indicative of these attitudes. Osborne and Gaebler have observed that “. . . government managers are not, for the most part, used to having or using information, especially for forward-looking purposes. And on many issues, political pressures are often so great that data seem to be beside the point when decisions are made.”³⁶ Similarly, Akotia notes that within the Ghanaian civil service computers generally were not used for analysis. Citing a study by Peterson, he pointed out that the low level of computer-based analysis relates to the fact that senior officers limit the use of information in decision-making.³⁷

Attitudes to Records Use and Management

The three studies also present revealing data concerning the attitudes of government and donor agency officials to record keeping and the value of recorded information as a strategic resource.

All three studies present data that support the view that records management is seldom an organisational priority and is not viewed as being a professional discipline but, instead, is seen as a low-level clerical function. As evidence of these widely held attitudes about records management in government, Wamukoya pointed to the challenges he experienced in conducting his own research. He encountered extreme

difficulty collecting data for his study due to the indifference public administrators had to records management and the generally low priority with which they accorded it.³⁸ His experiences led Wamukoya to write that “. . . despite growing awareness about the importance of records management, most senior officials in the public service accord it little recognition, treating it more like a clerical function.

Consequently, poor organisation of records and ineffective control and retrieval of information has become a major problem for most agencies in the public service.”³⁹

Wamukoya’s findings are echoed in those of the IRMT and Akotia. Akotia found that “. . . throughout the central administration of finance, records services tend to be viewed as a simple support function which will take care of itself. With little or no management support, general registry services have gradually deteriorated and are presently a pale reflection of what they should be.”⁴⁰

Wamukoya also observes that most senior public officials continue to give record keeping a lower level ranking in relation to other governmental priorities because they remain unaware of the potential benefits of records management to public administration.⁴¹ Akotia found a lack of awareness on the part of governmental authorities of the value of information as a strategic resource, which along with lack of appropriate policies, resources and procedures, could be blamed for the poor record keeping in respect of financial records.⁴² The IRMT study found that accountants, auditors and other senior public officials understand that records are needed for accountability, but are only just beginning to recognise the need for records *management*.⁴³ The study makes the additional observation that “There is a

widespread belief that the [record keeping] problem is so prevalent, ingrained and thankless that little can be done to improve the situation.”⁴⁴

Wamukoya and Akotia also found that donor agency attitudes failed to recognise sufficiently the importance of good record keeping. Despite policies and aid programmes that acknowledge the criticality of information to the state, Wamukoya observes that in Kenya no donor agency was involved in a records management project in 1996,⁴⁵ noting that “ . . . economic recovery programmes and public sector reform programmes implemented with donor financial support have still not included records management among the areas that should receive urgent and significant support.”⁴⁶ Akotia agrees, making the observation that, in Ghana as elsewhere, donor agencies mistakenly focused on the introduction of computer technology as the sole solution to information management problems in the civil service.⁴⁷ Moreover, they did not provide a broad enough remit to Ghana’s Public Sector Records Improvement Project to support major changes in the management of public finances. Consequently, public sector financial management improvement initiatives have had a much more limited impact than they might otherwise have done.⁴⁸

Training in Records Management

The IRMT study found that records professionalism in developing countries is limited. As a result, records staff do not understand how legislation affects the creation and use of records, how to translate changing legal and regulatory

requirements into practical systems and how new technologies impact upon records system design.⁴⁹ The study attributes this lack of professionalism to the absence of appropriate education and training in records management.

Wamukoya's study found that staff in government registries had received little, if any, training in registry operations. He noted that this problem related to the fact that registries were often used as dumping grounds for clerical officers who had failed in other areas. Moreover, the situation was often worsened by lack of career prospects for registry personnel and the absence of opportunities for training in records management.⁵⁰

In regard to the management of public sector financial records, Akotia's and the IRMT studies both pointed out that government accountants create and maintain accounting records but have little or no background in records management. As a result, they do not manage their records effectively which, in turn, negatively affects the preparation of accounting information and financial reporting.⁵¹ This discovery has prompted the IRMT to develop records management guidelines for financial records.⁵²

All three studies noted that attitudes of senior public officials, auditors and donor agencies can only be improved if work is done to educate them about the role of records in support of good governance and economic development.⁵³

Information and Records Management Practices

The three studies found an entire range of shortcomings with the way in which recorded information was being managed in Kenya, Ghana and The Gambia.

Among the most fundamental problems identified was the absence of clearly defined responsibility and authority for the record keeping function. More often than not, there was no one agency with the authority to coordinate and regulate records management. Instead, responsibility for record keeping was fragmented, usually between a national archives authority and other government agencies. The studies found that national archives services lacked the mandate and capacity to take on the function of controlling and coordinating records management throughout the public service. For example, in Kenya, Wamukoya found that the National Archives needed to broaden its focus, as it only concentrated on scheduling files for permanent preservation and destroying ephemeral material. This approach did not adequately provide for the management of current and semi-current records. Records were therefore not being managed as a key strategic resource of major significance for good governance, accountability and efficiency.⁵⁴ Yet, as the IRMT study found, good record keeping requires the existence of a strong records management regulator. It also gathered data that showed that the absence of a strong internal records management regulator contributed to widespread non-compliance with legislative requirements for financial record keeping.⁵⁵

Lack of a sufficiently well structured policy and procedural framework for the record keeping function also led to weaknesses in records systems. Akotia notes that Colonial Financial Orders did not adequately define the statutory arrangements for managing financial records.⁵⁶ Moreover, there was an absence of policy on the significance of information to public financial management and no procedural manual to provide clear and detailed guidelines on financial records management.⁵⁷ Wamukoya observed that “ . . . although the Kenya Government has made commendable efforts in supporting the Kenya National Archives and Documentation Service in its role as custodian of public records, a more comprehensive policy mechanism embracing the management of records through their entire life-cycle is urgently required . . . ”⁵⁸ The IRMT study found that although government procedures in The Gambia were comprehensive in describing the purpose, creation, use and distribution of certain financial records, they provided little or no guidance on the control, storage or disposal of records in order to meet audit, accountability and financial management needs.⁵⁹

All three studies observed the almost complete collapse of registry systems throughout the civil service. Each study noted the ways in which collapse of the registry systems has led to a host of common record keeping problems such as ineffective supervision of registry operations; difficulties in tracing file movements and the location of closed files; delays in filing correspondence resulting in huge backlogs; and inconsistency in file numbering systems.⁶⁰ All of these problems compromised the integrity of recorded information as evidence of public sector

business transactions and hindered its retrieval for use in support of efficient, effective and uncorrupted public administration.

The studies by Akotia and the IRMT found that the collapse of registry systems was part of a general decline in public administration wherein informal practices supplanted formal rules and which saw an institutional culture emerge which made little use of records.⁶¹ As the IRMT noted: “Indeed the failure to create and maintain records systems was sometimes motivated by the desire to conceal financial and other irregularities.”⁶²

Wamukoya’s study also revealed the existence of information flow problems. For example, in the Ministry of Finance, all information flowed through one central registry, a registry that did not operate well to begin with. This practice both reflected and reinforced the rigid, bureaucratic and centralised decision-making and communication structures in the ministry. These structures undermined the objectives of the Civil Service Reform initiatives and frustrated attempts to improve the country’s governance systems.⁶³ Akotia also found that difficulties in the flow of information contributed to problems, particularly in terms of budget preparation, with monitoring and control.⁶⁴

The Introduction and Use of Computers

All three of the studies found that although donors recognised that the public service suffered from information related problems they saw solutions being provided through the introduction and application of computer technology, which led to a growing emphasis on computerised information systems as a component of civil service reform.⁶⁵ For example, many developing countries have introduced new computerised personnel and financial management information systems with assistance from the World Bank and other donor agencies. Wamukoya states that

. . . since the advent of public sector reforms, the policies adopted by most governments in developing countries and donors alike have tended to accord information technology a high priority, with records management receiving a low priority in terms of organisational placement, staffing and budget allocation.⁶⁶

He goes on to note that

. . . both government and donors define information narrowly in terms of computerization and tend to view computers increasingly as ‘solutions to the management of the information required to deliver effective public services.’⁶⁷

However, the three studies point to the fact that many of these initiatives have met with limited success for a number of reasons. One such reason is a failure to link computer systems with paper-based systems. This has resulted in several problems as follows: data in management information systems frequently have been unreliable and inaccurate and paper record keeping systems undermined; there is no framework for managing records in electronic form; there is a lack of integration of computer systems; and there is little capacity for computer systems.

All three studies attribute many of the shortcomings of computer technology to the fact that these systems have been developed without consultation with records and information managers. Programmers and information technology specialists are principally concerned with issues of access and retrieval.⁶⁸ This has meant that important issues such as linkage with older paper-based systems and the integrity of electronic records have been overlooked. Akotia argues that governments would have avoided many of these problems if they had involved records managers in planning for the introduction of computer technology. He goes on to make the point that their involvement would have dealt with issues such as the accuracy of the source data, managing paper-based input and output data, and management of electronic records. They would also have raised issues concerning the protection of vital records and disaster planning and recovery. In addition, they would have ensured the availability of system documentation and a safe storage environment so as to strengthen the reliability and trustworthiness of electronic records.⁶⁹

Record Keeping and the Development Agenda

Recent development programmes and initiatives reflect an emerging recognition that good record keeping supports accountability and that this, in turn, supports the objectives of good governance and the attainment of economic development.⁷⁰ In Ghana, Phase Two of a World Bank civil service reform programme included the improvement of records and information management as a means of strengthening the institutional and operational structure of the Office of the Head of the Civil Service

and the Management Services Division.⁷¹ By 1990, the UNDP had established its Aid Accountability Initiative (later known as the Programme for Accountability and Transparency [PACT]). This programme recognised the need to account for public funds to meet accountability requirements and that lack of accountability constituted a major obstacle to good governance and economic development.⁷² Through its PACT Programme, the UNDP forged links with organisations working toward records management on a global scale, including the International Council on Archives (ICA), the IRMT and the Association of Records Managers and Administrators (ARMA) International.⁷³ The UNDP's interest in forging alliances with records management associations evidenced recognition of the fact that well managed records are needed to support accountability and provide the basis for transparency.

As encouraging a sign as these initiatives are, very little has changed in terms of Wamukoya's and Akotia's observations that development agencies fail to recognise sufficiently the importance of record keeping in terms of the success of development initiatives even though they may recognise lack of quality information as a problem. Development administrators still pay scant attention to record keeping in the policies and strategies they recommend. As evidence of this, we need only cite the 1998/99 World Bank *World Development Report*.

The report identifies knowledge related problems as presenting obstacles to advancing economic and social well-being. One such problem relates to what the

authors of the report define as “information problems”, that is a lack of knowledge about such attributes as “the quality of a product, the diligence of a worker, or the creditworthiness of a firm . . . ” which is critical to effective markets.⁷⁴ The report’s authors point out that mechanisms to alleviate information problems, such as product standards, training certificates, and credit reports, are fewer and weaker in developing countries.

The report acknowledges that information failures are a common problem for financial institutions. The inability to properly assess and monitor different types of financial risks, such as the risk that an asset or loan will become unrecoverable or that there will be a delay in the servicing of a loan, is an important cause of bank failures. Failure to process information effectively can contribute to bank collapse. For example, the authors of the *World Development Report* cite research that implicates information deficiencies of this type, coupled with market failure to fully and efficiently process available information, in the collapse of East Asian financial markets in 1997.⁷⁵

Thus, the report’s authors argue, the ability of banks and banking regulators and supervisors to gather information and accurately assess it is vital to the overall health of banks in particular and financial systems in general. The authors of the report make the further point that effective information processing is supported by strong systems of accountability, which, in turn, ensure the flow of required information. They see systems of accountability as being strengthened by the introduction of

accepted accounting standards and regular audits. For example, they maintain, accounting standards help in the accurate assessment of the health of banks by providing reliable information on loan classification and concentration, on the realistic valuation of collateral, and on loan loss provisioning.⁷⁶ They point to empirical studies showing that there is a high correlation between weak legal and accounting systems and countries with low incomes, suggesting that a better information environment, aided by strong accountability systems, leads to healthier banks which, in turn, contribute to financial market growth and stability.

Though accounting and audit standards and regular internal audits will no doubt strengthen accountability, the research by Wamukoya, Akotia and the IRMT suggests that to follow only these strategies will not yield the desired results. Effectively managed record keeping programmes also will be needed to strengthen accountability. These studies of the public sector linking poor record keeping, information problems, and lack of government accountability with failure to effect public sector reform suggest that research into the causes of banking failures must not overlook the important role of organisational record keeping practices as a source of information problems. Even where strong accounting standards and auditing practices are in place, poor record keeping may prevent banks and bank regulators from obtaining the information they need to manage risk, effectively monitor bank practices and prevent financial crises. Empirical exploration of cases of bank failures, as the Jamaican financial crisis affords, can reveal whether these assertions hold true. Armed with a better understanding of the relationships among record keeping,

accountability and competitive viability, it is possible to develop more effective policy and strategies to avoid the causes of collapse in banks and, possibly, other types of commercial enterprises as well.

Conclusion

This chapter has argued that relationships among economic development, accountability and record keeping in the public sector are analogous to those among private sector competitive viability, accountability and record keeping. The concept of competitive viability is applicable to the public sector if viewed as a country's ability to remain competitive in a global marketplace and avoid being unable to repay its debts. Though there are many definitions and paradigms for economic development, competitive viability is an important precondition. Since the early 1980s, development strategies have placed an emphasis on economic reforms aimed at improving the chances that developing countries could reduce and repay their debt obligations. However, there has been early recognition that macroeconomic reform alone would not lead to significant improvements in the competitive viability of these countries. Institutional reforms dedicated to strengthening governance also would be needed. This is analogous to the argument, advanced in chapter two, that macroeconomic factors alone do not support the competitive viability of private sector entities; endogenous factors, in particular, effective systems of accountability, are also significant. In the public sector, donor agencies have come to view accountability as underpinning good governance. This study argues that this is equally true of good corporate governance.

There is a growing body of empirical evidence to show that clear relationships exist among economic development, accountability and record keeping. Studies concerned with record keeping and public sector management in developing countries by Justus Wamukoya, Pino Akotia and the IRMT provide data to demonstrate the links. Recently, some donor agencies have taken steps to establish programmes that indicate their acknowledgement of these relationships although, overall, development policies and strategies still focus little on eliminating poor record keeping as a means of resolving information problems that undermine economic development. Based on this argument, the findings presented in the three studies discussed in this chapter have been used to provide empirical support for the posited relationships among private sector competitive viability, accountability and record keeping outlined in chapters two and three.

End Notes

¹ JoAnne Yates, *Control Through Communication: The Rise of System in American Management* (Baltimore, Maryland: John Hopkins Press, 1989).

² It is recognised that given the social role of the public sector other non-economic definitions of competitive viability equally could be used. For example, when the public sector fails to meet the social or economic expectations of citizens, citizens may lose faith in the political directorate. In extreme cases, such loss of faith may lead to loss of political power, either by legitimate means (ie, in an election) or non-legitimate means (ie, a coup).

³ There is some debate as to whether the Third World debt crisis of the 1980s was merely a liquidity problem or signified insolvency. Beatriz Armendariz de Aghion and Francisco Ferreira, in surveying the academic literature of the 1980s, argue that while the crisis was initially viewed as a liquidity problem, academics later came to view it more as an insolvency problem. See Beatriz Armendariz de Aghion and Francisco Ferreira, "The World Bank and the Analysis of the International Debt Crisis," *The New Institutional Economics and Third World Development*, John Harriss, Janet Hunter and Colin M. Lewis eds. (London: Routledge, 1995), 221-226.

⁴ Paul Mosley, "Structural Adjustment: A General Overview, 1980-9," *Current Issues in Development Economics*, V.N. Balasubramanyam and Sanjaya Lall eds. (London: MacMillan Education Ltd., 1991), 225.

⁵ The threat to global financial stability arose as a result of the high level of commercial bank exposure to Third World debt. Measured in terms of outstanding loans to lower income developing countries as a share of total commercial bank loan portfolio, LDC loans rose from 49.6 % in 1975 to 61.5% in 1978 [Armendariz de Aghion and Ferreira, 219].

⁶ Howard Stein, "Institutional Theories and Structural Adjustment in Africa," *The New Institutional Economics and Third World Development*, John Harriss, Janet Hunter and Colin M. Lewis eds. (London: Routledge, 1995), 109-132.

⁷ Mosely, 223 and 229; Stein, 111.

⁸ Stein, 110.

⁹ The World Bank, *A Governance Approach to Civil Service Reform in Sub-Saharan Africa: Improving Effectiveness and Efficiency* (Washington, D.C.: The World Bank, 1983), 2 quoted in Justus Muranga, Wamukoya, "Records Management and Administrative Reform Programmes in Kenya," unpublished PhD thesis, University of London, 1996, 76.

¹⁰ Wamukoya, 28.

¹¹ Stein, 110-111.

¹² Ibid, 29.

¹³ Wamukoya, 142-143.

¹⁴ D.J. Savoie, *Globalization and Governance* (Ottawa: Canadian Centre for Management Development, 1993), 12 & 16 quoted in Pino Timothy Akotia, "The Management of Public Sector Financial Records: The Implications for Good Government," unpublished PhD thesis., University of London, 1997, 33.

¹⁵ An IRMT study notes that, "Despite three decades of development aid most African countries have not improved significantly since independence." The study goes on to cite several reasons for this failure based on an extensive reading of development administration literature. Reasons given include: 1) the legacy of colonial systems; 2) lack of ownership of the reform process; 3) disconnection between the state and civil society; 4) difficulty in implementing change; 5) the deterioration of financial management systems; 6) the collapse of record systems; and 7) poor communications and technical infrastructures. [Kimberly Barata, Piers Cain and Anne Thurston, "Accountability and Public Sector Management: The Management of Financial Records in sub-Saharan Africa: A Final Report" (London: IRMT, 1998), 18].

¹⁶ John Harris, Janet Hunter and Colin M. Lewis eds., *The New Institutional Economics and Third World Development* (London: Routledge, 1995), 6.

¹⁷ Mamadou Dia, *A Governance Approach to Civil Service Reform in sub-Saharan Africa*, World Bank Technical Paper No. 225 (Washington, D.C.: The World Bank, 1993), 12 quoted in Wamukoya, 34.

¹⁸ "Governance for Sustainable Human Development," United Nations Development Programme, 1997, online, Internet (<http://www.undp.org>), 2 February, 2000.

¹⁹ Ibid.

²⁰ *The Oxford English Dictionary*, p. 87.

²¹ Sue McKemmish and Frank Upward, "Introduction," *Archival Documents: Providing Accountability Through Recordkeeping*, Sue McKemmish and Frank Upward, eds. (Melbourne: Ancora Press, 1993), 2.

²² McKemmish and Upward, 1.

²³ Ibid.

²⁴ Wamukoya *passim*.

²⁵ Akotia *passim*.

²⁶ IRMT *passim*.

²⁷ Wamukoya, 62.

²⁸ Ibid, 223.

²⁹ Akotia, 16.

³⁰ Ibid.

³¹ Akotia, 17.

³² Ibid.

³³ IRMT *passim*.

³⁴ For more on how records were used in The Gambia to prove corruption in court and how missing records impeded the legal prosecution of those suspected of corruption and fraud, see *The Return to Democracy: Accountability and Documentary Evidence in The Gambia*, dir. IRMT, videocassette, UNOPS, 1997.

³⁵ Wamukoya, 134.

³⁶ David Osborne and Ted Gaebler, *Reinventing Government*. (New York, N.Y.: Penguin Books, Inc., 1992), 359 quoted in Wamukoya, 79.

³⁷ Akotia, 272-273.

³⁸ Ibid, 181-182.

³⁹ Akotia, 212.

⁴⁰ Ibid, 241; IRMT, 50.

⁴¹ Wamukoya, 146.

⁴² Akotia, 261.

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- ⁴³ IRMT, 2.
- ⁴⁴ Ibid, 84.
- ⁴⁵ Ibid, 227.
- ⁴⁶ Wamukoya, 230.
- ⁴⁷ Akotia, 318.
- ⁴⁸ Ibid, 317.
- ⁴⁹ IRMT, 2.
- ⁵⁰ Wamukoya, 146-147.
- ⁵¹ Akotia, 252; IRMT, 11.
- ⁵² Kimberly Barata, Piers Cain and Dawn Routledge, *Principles and Practices in Managing Financial Records: A Reference Model and Assessment Tool* (London: IRMT, 2001).
- ⁵³ See for example IRMT, 52.
- ⁵⁴ Wamukoya, 148.
- ⁵⁵ IRMT, 51.
- ⁵⁶ Akotia, 242.
- ⁵⁷ Ibid, 255-256.
- ⁵⁸ Wamukoya, 141.
- ⁵⁹ IRMT, 11.
- ⁶⁰ See Akotia, 235-241 and Wamukoya, 146, 190 and 191.
- ⁶¹ Ibid, 64-68; IRMT, 58.
- ⁶² IRMT, 58.
- ⁶³ Wamukoya, 206.
- ⁶⁴ Akotia, 243.
- ⁶⁵ Wamukoya, 138.
- ⁶⁶ Ibid, 218.
- ⁶⁷ Wamukoya, 232-233.
- ⁶⁸ IRMT, 2.
- ⁶⁹ Akotia, 278-279.

⁷⁰ Despite these recent initiatives, development theory still does not recognise the need for supporting records management and the establishment of a records management regulator [IRMT, 28].

⁷¹ Akotia, 104. Akotia, however, commented that reform of records and information management did not have a wide enough remit in relation to financial records and therefore efforts to improve public sector financial management were not as effective as they might otherwise have been.

⁷² Ibid, 299; IRMT, 47-48.

⁷³ Akotia, 300.

⁷⁴ World Bank, *World Development Report 1998/9* (Washington, DC: The World Bank and Oxford University Press, 1999), 83.

⁷⁵ Ibid, 82.

⁷⁶ *World Development Report*, 90.

Chapter Five: Competitive Viability, Internal Control and Accountability in the Banking Industry

Introduction

The first two chapters of this study set out a theoretical framework linking competitive viability, accountability and record keeping, while chapter four found empirical support for the theorised link in research on the relationships among record keeping, public sector reform initiatives and economic development in Africa. Further empirical support for this link is sought in the experiences of collapsed Jamaican commercial banks in later chapters. However, in advance of exploring the Jamaican field research data, some background information on the banking industry is necessary.

Aside from aiming to familiarise the reader with significant aspects of the banking industry, this chapter seeks to illustrate that the literature on banking lends support to the ideas put forth in chapters two and three about the relationships among competitive viability, accountability and record keeping. Based on the literature, this chapter presents examples of how failures of bank internal control systems, a major

component of which is accountability, have contributed to bank failure. It is argued that accountability structures, systems and procedures, as an important means of managing and controlling a range of risks associated with banking operations and maintaining an accurate picture of financial performance and position, underpin banks' competitive viability. This chapter then goes on to discuss how quality information and communication, a prerequisite of which is good record keeping, is viewed as being a critical element of banks' systems of accountability and internal control.

What Banks Do

Traditionally, banks have played an important role in the economy as intermediaries between depositors and borrowers. Arising from their role as intermediaries, banks offer two main products: 1) deposit products and 2) loan products. Banks generally use deposit products to fund their loan products. Thus, we may view the business of banks as both managing liabilities (liabilities being deposits that pay out money on demand or at some future date) and managing assets (assets being loans and investments).¹ Payment systems are by-products of and facilitate banks' role as intermediaries between depositors and borrowers.²

The Economic and Social Role of Banks and the Need for Banking Supervision

In virtually all countries around the world, whether developed or developing

economies, the banking industry is one of the most heavily regulated commercial sectors. Banking is regulated from “cradle to grave” - from processing of applications for licensing for as long as a bank remains in business. The need for tight regulation of the banking industry is due to the crucial role financial intermediation plays in the economy and to the fiduciary responsibility banks have to those for whom they hold money. In acting as intermediaries in the mobilisation of resources, banks are able to influence the direction, pattern and flow of national resources thereby affecting the rate of economic development. They are able to fulfil this role because they help to provide savers with highly liquid assets at lower levels of risk while giving investors access to a larger pool of resources for investment finance at a lower cost and in a more suitable form than would be possible by relying on savers and investors to find one another. Banks’ role as financial intermediaries is particularly important in economies with relatively undeveloped capital markets such as in developing economies because investors do not have access to other sources of funding through equity financing. Banks also have a central role in the execution of the government's monetary policy and in preserving overall balance in the economy.³

It is for these reasons that regulation of the banking industry is considered important. Whether banks perform their functions well may determine “the degree of success of the development efforts, particularly if they make conscientious efforts to mobilize reservoirs of funds for allocation to entrepreneurs for investment in projects with the highest rates of social return.”⁴ In performing their financial intermediation function, in the best interests of their depositors and society, banks are expected to ensure prudent management of assets and to guarantee the safety of depositor's funds. They

are expected to adhere strictly to safe and sound banking practices and maintain adequate internal control measures to prevent incidences of fraud, forgeries and other financial misdemeanours in order to ensure stability and engender the public's confidence in the financial system. The argument for prudential regulation lies in the fact that bankers, not always being motivated by depositors' and society's interests, do not necessarily operate their banks in a manner that will guarantee the safety of depositors' funds, the viability of the bank, and the health of the financial system.

Types of Banks

There are two major categories of banks: wholesale banks and retail banks.

Wholesale banking usually entails the provision of services to a small number of very large customers, such as corporations or governments. This type of banking is largely inter-bank; that is, banks use the inter-bank markets to borrow from and lend to one another. American investment banks and UK merchant banks offer examples of wholesale banking activity.⁵ Retail banking, on the other hand, entails the provision of basic services to a large number of small customers. This type of banking traditionally has been made possible by having a high number of branches in places like shopping centres, college campuses, industrial estates and high or main streets of cities and towns.⁶ Increasingly, these types of banks also deliver their services through channels such as the telephone and the internet.

Commercial banking is actually an American term referring to both wholesale and

retail banking activities, but not investment banking.⁷ In Jamaican law, a commercial bank is a bank licensed under the provision of the Banking Act to carry out banking business.⁸ The Banking Act of Jamaica defines banking business as “the business of receiving from the public, on current account or deposit account, money which is repayable on demand by cheque or order and which may be invested by way of advances to customers or otherwise; and such other business of like business as the Minister may, by order, prescribe.”⁹ Thus, this study concentrates on the traditional role of the bank as deposit taker, lender and maker of payments, primarily to small customers as in retail banking.

Types of Banking Systems

There are two basic models for banking systems: universal and non-universal. The banking laws of each country reflect which model has been adopted in that country. The universal bank model permits banks to engage in a wide range of financial activities, including a full range of traditional banking and securities activities. Universal banking refers to the provision of all or most of financial services under a single, largely unique banking structure.¹⁰ This type of banking activity may include intermediation; trading of financial instruments, foreign exchange, and their derivatives; underwriting new debt and equity issue; brokerage; corporate advisory services, including mergers and acquisitions advice; investment management; insurance; and holding equity of non-financial firms in the bank’s portfolio.¹¹ An increasing number of countries follow universal banking practices, for example,

Canada, France and the UK, and the European Union allow universal banking.¹² In these countries, banks are permitted to operate as fully integrated universal banks that supply a complete range of financial services from one institutional entity.

In banking systems that are not universal, the same types of financial services may be offered, but not under the auspices of a single banking structure. In fact, the laws of countries with non-universal banking systems will prohibit the degree to which banks may become directly involved in non-banking activities. The underlying reason for these prohibitions is to establish what might be called fire walls to prevent banks from engaging in highly risky activities that may affect the soundness of their banking operations and thereby the safety of depositors' funds. This bank model reflects the theoretical situation in Japan and, until very recently, the US. In practice, in the US and, to a lesser extent Japan, market and competitive forces have largely displaced the narrowly defined specialised bank models. Indeed, these pressures led to passage of new banking legislation in the US in 1999 that has seen the country adopt a more universal banking approach.¹³ In theory the Jamaican banking system is non-universal but, as shall be discussed in greater detail in the following chapter, in reality it became universal by default during the financial crisis as a result of the formation of large financial conglomerates owning both banking and non-banking subsidiaries in which there was considerable interconnection of both transactions and lending.

Competitive Viability in Banking

In chapter two, competitive viability was defined as the ability of private sector business entities to function and develop with sufficient efficiency to avoid failure and ensure survival in a competitive market. In the context of banking, competitive viability simply refers to the ability of a bank to function and develop in a way that avoids failure and ensures the continuing operation of the bank.

In many cases banks do fail and are liquidated (ie, their assets are sold off). However, in other cases banks actually are not allowed to fail because of concerns about the effects of failure on the stability of the financial system. Often, if governments or regulators perceive that a bank is “too big to fail” they may step in to rescue it. For this reason, bank failure usually is defined as insolvency leading to liquidation, merger with a healthy bank under government supervision, or rescue with the help of state financial support.¹⁴ This is the definition of bank failure to be used in this study.

Banking - A Risky Business

The competitive viability of banks essentially rests on their ability to manage a range of risks arising in the normal course of bank business activities of lending, deposit taking and making payments. As one banking authority has noted: “Banking is about taking risks . . . without taking risks, bankers cannot make money.”¹⁵ Banking is so much about risk that banking expert Joel Bessis describes the bank as a “risk

machine.”¹⁶ It is particularly important for banks to manage these risks, however, because banks are more highly leveraged or geared than other types of businesses. That is to say that banks have a higher ratio of risk assets to shareholder capital than most other types of enterprises.¹⁷ This financial structure makes banks relatively more susceptible to insolvency if risks are not managed properly.

The traditional areas of banking risk generally identified in the literature are: 1) credit risk, 2) liquidity risk, 3) market risk and 4) interest rate risk.¹⁸ These are discussed below. Despite the compartmentalisation of risks in the banking literature, many of these risks are inter-dependent and, consequently, bank risk analysis and management now places greater emphasis on assessing groups of risks.¹⁹

Credit Risk

Credit risk is one of the oldest types of risk in banking and, as Joel Bessis points out, “is paramount in terms of the importance of potential losses.”²⁰ Each time a bank makes a loan, it takes a risk, known as credit risk. Credit risk commonly arises as a result of the risk that a customer will fail to comply with their obligation to service a debt. Failure to comply may refer simply to a delay in making a payment or to outright default on the loan.²¹ Credit risk also occurs when the customer’s credit standing declines in any way.

A common cause of credit risk is large exposure to a single borrower or group of related borrowers. Large exposures can also arise as a result of concentrations of

lending to a particular type of industry, economic sector, or geographical region, or by having sets of loans with other characteristics that make them vulnerable to the same economic factors.²²

Connected lending, which is the extension of credit to individuals or firms connected to a bank through ownership or through the ability to exert direct or indirect control - also poses credit risks, as such lending decisions are not always made on the basis of an objective assessment of the risks involved and therefore can lead to defaults on loans. Connected parties include a bank's parent organisation, major shareholders, subsidiaries, affiliated entities, directors, executive officers, and firms controlled by the same group.²³

Increasingly, credit risk also arises in a bank's investment and trading portfolios and in other banking activities as a result of new methods for minimising, or hedging, against traditional forms of credit risk and the provision of new banking services (eg, asset securitisation²⁴, interbank lending and overnight deposits).²⁵ In either case, the value of the bank's assets decline as a result, which can threaten solvency.

Banks manage credit risk by means of knowing their customers in order to be able to assess their credit worthiness; effective board and senior management oversight of credit decisions; written policies and procedures on lending; assessment of asset quality and loan loss provisioning; creating and maintaining appropriate loan documentation; establishing processes and analytical capabilities for ongoing monitoring of the condition of the loan book and other assets, including loan

concentrations; and establishing processes for dealing with problem loans.

Liquidity Risk

Liquidity is an excess of current assets over current liabilities. When a bank has insufficient liquidity it may experience insolvency and bankruptcy. Joel Bessis notes, however, that extreme illiquidity is often the result of other risks, for example, important losses due to the default of a high-end customer.²⁶ This, in turn, can cause a run on the bank or the closing of credit lines by other institutions that creates a shortage of funds leading to extreme illiquidity and fatal risk.

Liquidity risk also refers to difficulties raising funds at a reasonable rate in retail or wholesale markets. Problems with raising funds on the markets may arise due to temporary periods of illiquidity in the market itself, which forces the cost of money up, or as a result of the characteristics of the bank: its funding needs, stability, reputation and so on.²⁷

Liquidity risk is usually the normal outcome of daily banking transactions. These transactions produce a *maturity gap* between assets and liabilities. For example, a bank may collect short-term deposits but lend long-term. Given the gap between maturities (when the bank must pay out on the deposit and when it will receive funds from the loan) there exists the potential for a lack of liquidity.²⁸ Thus, banks must carefully manage maturity gaps in order to avoid problems with liquidity.

Responsibility for ensuring adequate levels of cash and working capital to meet daily liabilities and unexpected circumstances usually falls within the treasury management function. This function generally has the responsibility of managing maturity gaps as well by means of a process known as asset and liability management (ALM). Most banks also have Asset and Liability Committees (ALCOs) that facilitate board and senior management oversight and overall coordination of the ALM function.

Market Risk

Market risk is the risk of declines in market rates or prices, including interest rates, foreign exchange rates and equity and commodity prices. The value of a bank's portfolio of traded instruments – such as equity shares or bonds - will be a function of its market price, coupon²⁹, coupon frequency, time, interest rate, and other factors. Fluctuations in the price of an instrument may be due to broad changes in market prices or from a shift in the price of a particular instrument. Market risk is becoming an increasingly significant risk for banks as they move into more off-balance sheet banking involving the trading of market-based instruments (eg, futures, forwards, options, and swaps)³⁰ to protect, or hedge, against other types of risks. While treasury management, and in particular Asset and Liability Management (ALM) functions, traditionally have included only the management of liquidity and interest rate risk discussed below, recently they have expanded to include the containment of market risk using such techniques as value at risk (VaR), stress simulations and capital at risk (CAR) calculations.³¹

Interest Rate Risk

Interest rate risk is a type of market risk. In market-based economies, most of the activities of a bank generate revenues and costs that are related to interest rates.³² The instability of interest rates is what generates the risk. Thus, interest rate risk is the risk that there will be a decline in earnings due to movements in interest rates. It arises primarily from mismatches in both the volume and maturity of interest-sensitive assets (eg, loans), liabilities (ie, interest earning deposits) and off-balance sheet items.³³ For example, a bank will experience a reduction in its earnings if there is a mismatch between its fixed and variable rate loans. If the bank has an excess of fixed rate loans, it will be vulnerable to rising interest rates because it will lose the additional revenue that could have been generated from the loan as a result of the higher rates but still have to pay out more on variable rate deposits. Conversely, if a bank has an excess of fixed rate deposits, it will be vulnerable to falling interest rates.

Interest rate risk can arise as a result of rate fluctuations, imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar characteristics in the maturity and re-pricing of assets, and express or implied options imbedded in bank assets, liabilities and off-balance sheet portfolios.³⁴ An unexpected shift in interest rates can have a serious impact on the profitability of a bank.³⁵ Consequently, banks must maintain a good balance of assets and liabilities by carefully managing interest rate risks. Again, banks use the ALM process to achieve this objective.

In addition to the major types of bank risks discussed above, there are many

additional and related risks that must be mentioned since these risks also can threaten bank solvency. Many of these risks are not unique to the banking sector. The following are but a few of the more significant additional areas of risk:

settlements/payments risk, which occurs when one party to a transaction pays money or delivers assets before receiving its own cash or assets thereby exposing it to potential liquidity problems; foreign exchange or currency risk, which arises under any system of flexible exchange rates as a result of the fluctuation of those rates and can be categorised as a type of market risk; sovereign risk, which may be viewed as a special class of credit risk wherein a loan to a government may not be repaid; fraud; operational risks, which can encompass many different types of risks but generally is associated with the risk of loss arising from human or technical error; legal risks, which encompass any risk arising from violations of or non-conformance with laws, rules, regulations or prescribed practices; reputational risks, being the risk of significant negative public opinion that results in critical loss of funding or customers; macroeconomic risk, which is the risk that instability of such macroeconomic factors as inflation rates, foreign exchange rates and reserves may threaten a bank's stability; and political risk, being the risk of political interference in a private bank.³⁶ It should be noted that there is no general agreement in the literature on the classification of these risks into categories. For example, some banks view settlements or payments risk as a form of operational risk, while others do not recognise operational risk as a separate category of risk at all.³⁷ The classification of these risks is, therefore, somewhat arbitrary.

Explaining Bank Failures

The incidence of bank failures has been growing since the early 1980s. The literature on the causes of bank failure offers so many different reasons for bank collapse that one commentator has said that the reasons are “so complex and so country-specific that generalizing a solution [to bank failure] was impossible.”³⁸ However, as theorised in chapter two, the factors affecting the competitive viability of banks, like other commercial enterprises, can be grouped in to two broad categories: 1) exogenous factors, or those factors originating outside of the bank itself and 2) endogenous factors, or those originating within the bank and relating to bankers’ strategies and methods of conducting business. These factors threaten the competitive viability of banks by either increasing the types or degree of risks banks face or through failure to manage those risks effectively.

Exogenous Factors

The literature suggests that exogenous factors further break down into two sub-categories: 1) macroeconomic instability and 2) bank supervisory weaknesses.

An unstable economy is implicated in most bank failures.³⁹ The performance of the national and, increasingly, global economy can determine bank survival. Quantitative studies of the causes of bank failure indicate a positive correlation between such factors as rising nominal interest rates, increases in the real exchange rate, rising inflation and increasing incidence of bank failure.⁴⁰ Qualitative case studies also

implicate macroeconomic factors in a number of bank failures, for example, declining oil prices in the case of collapsed Texan banks, rising interest rates in the failure of US thrifts, the collapse of the “bubble economy” in Japan and the deterioration of loan quality in Poland and former Soviet Union countries.⁴¹ Karin Lissakers points out that emerging markets, such as the Jamaican market, are both more likely to be subjected to macroeconomic shocks and less able to absorb them.⁴² However, as most observers agree, although macroeconomic shocks may initiate most banking failures, these failures often are made significantly worse by ineffective banking supervision.

A number of factors can undermine effective banking supervision. These include: a weak regulatory framework, government interference in the operation of bank supervision, and a weak or ineffective supervisory authority. For example, in a number of the cases involving poor asset management, regulatory authorities overlooked credit exposures even though they exceeded well-defined regulations (This is a phenomenon generally identified as *regulatory forbearance*).⁴³ In the collapse of the US thrift industry, some commentators have argued that regulators put the interests of the regulatory body ahead of those of taxpayers and failed to close insolvent banks.⁴⁴ Moreover, most agree that overly restrictive regulation contributed to the collapse of the US thrift industry in the first place by exposing it to substantial interest rate risk.⁴⁵ The Bank of Credit and Commerce International (BCCI) failure illustrates the problems that can arise as a result of the difficulties associated with regulatory oversight of a global financial concern with a complex administrative structure.

Aside from overly restrictive regulation and regulators simply failing to do their jobs effectively, some analysts argue that banking regulation in and of itself can have unintended perverse consequences leading to bank failure (generally referred to as *moral hazard*). As Sam Jaffa states “Thrift deposits were and still are insured by the federal government, something which made regulators’ burden that much heavier, since depositors, safe in the knowledge that they could not lose their money, took little notice of how thrifts were run, or of whether or not their life savings were being prudently invested.”⁴⁶ George Kauffman argues deposit insurance legislation can cause riskier behaviour by banks that lead to higher numbers of failures and greater systemic risk. As a result, he contends that governments should use regulation sparingly.⁴⁷

In light of the potential moral hazards of banking regulation, many experts now see market discipline as a more effective means to regulate the sector.⁴⁸ Market discipline essentially relies upon corporate shareholders to monitor and discipline banks. Proponents see market discipline working essentially as follows: if shareholders know that a bank is not prudently managed they can discipline the bank by selling their shares. The directors and managers of the bank then must either improve management or see the bank’s market value decline.⁴⁹ In a country such as Jamaica where capital markets are not well developed, however, government regulation will likely remain a necessity.⁵⁰

Endogenous Factors

Poor corporate governance and bank management can weaken a bank's position by allowing what might be relatively minor problems in the first instance (ie, a difficult period as a result of a macroeconomic shock) to become major causes of irreparable damage. For example, excessive exposure to a single sector was the main cause of the failure of Johnson Matthey, Banco Ambrosiano, Canadian Commercial Bank and the Calgary-based Northland Bank, the US thrift and commercial bank sectors and of a number of banks in Denmark, Norway, Finland, Sweden and Japan.⁵¹ Bank managers simply made poor lending choices that left them over-exposed in certain sectors and vulnerable to macroeconomic shock.

Poor asset management often also includes a poor choice of collateral. The collateral might be closely linked to the performance of the sector where the excessive exposure lies. When the sector collapses, so too does the value of the underlying collateral thereby preventing a bank from recovering its losses. This was the case with the collapse of a number of Texan banks heavily exposed in the oil sector for which Texan real estate was the main source of collateral. When oil prices collapsed, so did the value of the real estate.⁵²

Often, a weak loan portfolio is symptomatic of larger operational problems related to governance, management and incentive structures. This was the case in state banks in Central Eastern European and former Soviet Union countries, where these larger operational problems manifested in poor lending decisions based on non-commercial

criteria.⁵³

In several cases, inexperience with new procedures has been at least a contributing factor in bank collapses. Inexperience in dealing with a relatively new product - foreign exchange services - led to fatal losses at Franklin National Bank and Bankhaus Herstatt. Limited understanding of the effects of volatile interest rates on the price of mortgage-backed securities contributed to the collapse of many US thrifts.⁵⁴ Barings collapsed in part because its management was primarily comprised of older bankers unfamiliar with the new derivatives market that the whiz kid Nick Leeson was so ingenious at dealing in. This led them to place too much control in Leeson's hands.⁵⁵

Lack of adequate internal control mechanisms, employee performance reward systems that encourage risky behaviour, and a "herd instinct" that reflects sub-standard management have also been identified as contributing to bank failure. In the Barings collapse, for example, British Chancellor, Kenneth Clarke, in connection with his investigation into the bank's collapse, blamed management errors that led to a failure to spot Nick Leeson's unauthorised dealing. In commenting on the collapse, Clarke stated: "It's a picture of total collapse of management control . . . It is incredible that such a system of control should exist in a bank like this [Barings]."⁵⁶

General managerial or bank supervisory deficiency often leaves the door open to and encourages fraud, which has figured prominently in a number of bank failures.

Among these were Banco Ambrosiano, Bankhaus Herstatt, Franklin National Bank,

BCCI, the US thrift industry and Barings.⁵⁷ However, in modern times fraud as a primary cause of bank failure is rare.⁵⁸ The collapse of BCCI is the only clear example of a bank failure where fraud was the primary cause.

A decline in franchise value contributed to the collapse of the US thrift industry. Where the economic value of a bank's capital declines, shareholders and managers have incentives to take greater risks as they have more to gain in doing so than they have to lose. Not only is there an incentive for them to take greater risks, declining franchise value often encourages self-dealing transactions and outright fraud.⁵⁹ In the case of the US thrifts, when the mutual firms were sold to shareholders, the reserves were used to finance risky ventures thereby threatening capital adequacy.⁶⁰

Several cases of bank failure have occurred hand in hand with organised crime penetration. For example, organised crime penetration was evident in the collapse of a number of Russian banks. It is also an issue with respect to many small banks in the Caribbean and Pacific operating in tax havens where the laundering of money through electronic funds transfers is not uncommon. These countries often have weak regulatory regimes with no teeth to prevent illegal transactions.⁶¹

In examining the failure of a given bank, it is impossible to identify a single, and sometimes even a primary, cause with absolute certainty because there are so many independent variables that interact in complex ways. Macroeconomists may have a tendency to focus blame on macroeconomic factors; credit risk managers will tend to blame the quality of the loan book; treasury managers will be inclined to blame failure

on lack of liquidity, and internal auditors will tend to focus blame on the absence of effective internal controls. T. Mouck of the Anderson School of Management at the University of New Mexico characterises capital markets as complex adaptive systems; that is, they consist of a network of interacting agents, processes and elements from which a dynamic, aggregate behaviour emerges.⁶² Financial systems should be viewed in much the same way.

That being said, however, experts increasingly agree that endogenous factors, specifically corporate governance and internal control, of which accountability systems form an important part, play a major role in bank failure. For example, in information asymmetry-based theories of banking crises, banks' inability to assess and monitor different types of financial risks often is attributed to weaknesses in credit and financial reporting. These weaknesses, as the 1998/99 *World Development Report* suggests, can arise from ineffective accountability systems that limit the amount of information flowing to banks and their regulators about different risks and reduces the trustworthiness of financial reports used to monitor and control those risks.⁶³

Banking - Riskier Than Ever

Corporate governance and internal control also have become more of an issue in part because banking has become riskier, and as the risks increase, the need to effectively manage and control them also increases. There are a number of interrelated changes

in the environment of the banking sector that make the banking business riskier and threaten banks' competitive viability. Among these changes are a more demanding client base; rising shareholder expectations; increasing competition from non-financial institutions encroaching on traditional areas of bank business against a background of banking as a maturing industry; growing interdependence of world economies and financial markets (globalisation); and rapid technological innovation.⁶⁴

All of these factors, linked together, have made banking in the current environment more complex, higher risk, lower profit and less predictable.

To remain competitively viable in the current environment, banks have been forced to expand and innovate. For example, they have responded to the challenges of the current business environment by spreading into new banking activities in the 1980s, for example, trading. These new areas of activity have brought new areas of risk. As Brian Quinn notes in respect to trading, "[trading] moves literally at the speed of sound - and computer-driven trading nearer to the speed of light. To suggest that more responsive risk management tools are necessary is a considerable understatement."⁶⁵ Banks also have introduced new products and services by unbundling risks through trading; that is to say, risks that were previously bundled together in a loan are now being unbundled and manipulated. Fix-rate lending is switched into floating rate, and *vice versa*. Loans are securitised and bought and sold in secondary markets. With these new developments, banking has become much more technical. Bank executives can no longer understand to any degree of depth the transactions that take place in their banks; therefore, there is a greater need for control systems. The banking sector has also moved to consolidate, a move that has led to

more international banking, including cross-border lending and banking and investment in subsidiaries and branches in other countries. International banking increases country and exchange rate risk and requires new methods for managing these risks.⁶⁶

In innovating and expanding to remain competitively viable in the current environment, banks, like other business enterprises (as discussed in chapter two), have introduced new computer systems as a means of dealing with the rising number and complexity of transactions and to gain a strategic advantage over competitors. However, these systems also have carried with them new risks. For example, computerised systems and controls mean that transaction processing and control systems are less tangible. Brian Quinn argues that in this environment it is less easy for a person to understand how the parts fit together to produce the whole.⁶⁷ In addition, a recent Basle Committee paper on risk management for electronic banking and electronic money activities points to the fact that, while electronic commerce opens up new opportunities for competitiveness, it also opens the door to increased operational, reputational and legal risk.⁶⁸

Additionally, banks have turned to another typical strategy (as discussed in chapter two) used to deal with the organisational side effects of growth and innovation, that is, they have flattened their organisational structures to reduce some of the operational inefficiencies associated with large, hierarchical organisational forms. In a recent article in *Financial World*, Kevin Thomson noted: “From re-engineering to mergers, organisations are going to extreme lengths to survive in an increasingly competitive,

fast-moving global environment. There's been a shift away from nice, tidy structures, with clear reporting lines and an obvious hierarchy - where communication is fairly straightforward - to something altogether different."⁶⁹ He observes that organisations are now flatter and more streamlined, and that reporting lines are less clear, job roles and titles blurred, decisions made more quickly and business messages more complex.⁷⁰

As these examples illustrate, there is a greater level of inherent risk that now exists in banking as a result of changes in the business environment coupled with the industry's response to those changes. Consequently, banks must pay greater attention to managing and controlling their risks through establishing effective systems of internal accountability and control or face an increase in operational inefficiencies that naturally accompany growth and innovation and which can lead to failure.

Banking on Internal Control

Brian Quinn, former Executive Director and Head of Financial Supervision at the Bank of England, has observed that ten years ago internal control systems were of little concern to bank executives and supervisors, noting that "Of course, control systems existed then, but they were taken for granted."⁷¹ Times have changed, however. In a recent paper on internal controls in banking, the Basle Committee commented that the

heightened interest in internal controls is, in part, the result of significant losses incurred by several banking organizations. An

analysis of the problems related to those losses indicates that they could probably have been avoided had the banks maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the banking organization.⁷²

In support of the Basle Committee's observations, W.J. McDonough has noted that virtually all the most serious trading related losses have involved internal control breakdowns.⁷³ A number of high profile cases illustrate the point. The collapse of Barings bank, which cost £1.27 billion, was attributed to flaws in the financial controls of the Singapore operations.⁷⁴ Another example of the failure of internal control systems is the case of Sumitomo Corporation, Tokyo - a failure that cost a reported \$US2.5 billion. In June 1996, Yasuo Hamanaka went from being the world's most successful copper dealer to "rogue dealer." Evidence revealed that Hamanaka's trading activity was known only to himself and one other employee and that the London metal exchange had twice warned Sumitomo that Hamanaka appeared to have falsified transaction records.⁷⁵ There is evidence to suggest, then, that banks without effective systems of internal control cannot effectively manage their risks and may, as a consequence, fail. Ray Kinsella has observed that "Where controls are deficient fraud, and even failure, are seldom far behind."⁷⁶

While it is not the intention here to argue that failure of internal control systems in and of themselves trigger bank insolvency, clearly the evidence shows that lack of a good system of internal controls can definitely exacerbate other problems and contribute to a bank's decline. Cyril Bennett argues that:

... no single risk management approach or commercial philosophy will insulate a financial institution from the effects of unexpected events on an ongoing basis. However, good management practice and

business-focused controls are likely to afford long-term protection to an organization. Furthermore, they are essential core values/mechanisms required *to facilitate commercial risk taking in the context of uncertain markets* [author's emphasis].⁷⁷

In this sense, effective internal control systems serve as buffers against exogenous factors contributing to bank failures. Brian Quinn supports this view. He states:

The results are evident: a small number of banks have consistently prospered in the last two decades since 1979, almost whatever the state of the economy. Many others have at best stood still and still others have left the sector altogether. Much, perhaps, most, of the difference between the more and less successful has been the strength of their systems and controls.⁷⁸

There is now a new emphasis in banking on internal control reflected in what is commonly referred to as the “compliance culture” or what Ray Kinsella has called a “shift in the operational centre of gravity within banks” to internal audit/compliance functions.⁷⁹ This new focus has arisen in many banking jurisdictions in response to public concern over bank crises as well as heightened expectations on the part of all stakeholders regarding the integrity and relevance of financial statements, accountability and corporate governance.⁸⁰

Basle Committee Framework for Internal Control

In response to the growing importance of internal control, the Basle Committee on Banking Supervision has developed a recommended framework for internal control in banks. The Basle Committee on Banking Supervision is a Committee of banking supervisory authorities that was established by the central bank governors of the

Group of Ten countries in 1975.⁸¹ In January of 1998, the Committee issued a “Framework for the Evaluation of Internal Control Systems” as part of its ongoing efforts to address issues in banking supervision and improve the supervision of banks in the area of risk management practices. In issuing the framework, the Committee stated that

A system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank’s reputation.⁸²

The framework, drawing on the experience of member countries, sets out a number of principles that comprise the essential elements of a sound system of bank internal controls. In so doing, the framework describes how accountability should be established and maintained to ensure effective internal control and prudent decision-making in the operation of banks. These principles, which fall into broad-based categories consistent with an earlier general internal control framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) include: the establishment of a sound management oversight and control culture; proper risk assessment; the establishment, implementation and monitoring of control activities; effective information and communication; and continual monitoring of the efficacy of internal control systems. The Basle Committee document notes that the objective of the principles is to ensure that “all banks, regardless of size, have an effective system of internal controls which is consistent with the nature, complexity,

and risk of their on- and off-balance-sheet activities and that responds to changes in the bank's environment and conditions.”⁸³

The Relationship between Internal Control and Accountability Systems

Though not precisely the same, internal control systems and accountability systems are closely related. Inherent in the Basle Committee's framework is the recognition that one of the primary mechanisms for maintaining internal organisational control is accountability, for it is through accountability that the feedback and feed-forward mechanisms which organisations require to maintain stability and control operate. Without these mechanisms, as was shown in chapter two, organisations must eventually succumb to natural forces of disintegration as they grow and expand.

In setting out the requirement for effective management oversight, the framework establishes the essential “who/to whom” bond of accountability starting at the very top of the organisational hierarchy with the board of directors, who are accountable to shareholders and regulators, and layered throughout the organisation from senior management to the individual worker. The framework document also identifies the importance of organisational culture as setting forth values consistent with good corporate governance which those within the organisation must be held accountable for upholding, again starting at the top of the organisation. The principles concerned with risk assessment address the need to develop accountability standards consistent with perceived levels of risk and organisational objectives through the establishment

of appropriate activity controls for different departments or divisions; physical controls; approvals and authorisations; and verifications and reconciliation. The prescribed control activities set out important aspects of how the actions and decisions of accountable persons are to be judged in the banking environment, namely: top level reviews and periodic checking for compliance with exposure limits, both of which rely on the availability and flow of trustworthy and timely management information. The final set of principles in the framework document acknowledges the need to monitor and control the control system itself, by means of an internal audit function. As such, it is possible to conclude that the Basle Committee's framework clearly operates on the basis of the idea that it is only through establishing the structures, systems and procedures that achieve accountability that the objective of internal control over banking operations can be met and that bank risks can be managed effectively. The framework, therefore, is imbued with the notion of accountability, and the principles address all of accountability's various dimensions.

The Importance of Information, Communication and Record Keeping in Internal Control and Accountability Systems

The Basle Committee framework recognises quality information and communication as being critical to how internal control and accountability operate within banking, addressing the issue in Principles 8, 9 and 10 of the document. For example, the Committee states that information should be reliable, timely, accessible, and provided in a consistent format.”⁸⁴ The details of these principles are discussed more fully in chapter seven.

In referring specifically to information and communication in its framework, the Basle Committee has recognised the unequivocal importance of managed information in the establishment of organisational accountability and internal control. This is of particular note in relation to the focus of this study as it lends support to the posited link between competitive viability, accountability and record keeping. Though information and communication is mentioned as only one element of an effective internal control system in the framework, it is assigned equal importance to other aspects. Moreover, the framework acknowledges that the quality of information and communication in a banking enterprise is linked to how records are created and kept and that, therefore, there is a need to manage records as part of record keeping systems. Specifically, the framework prescribes that “Internal information [must be] part of a record-keeping process that should include established procedures for records retention.”⁸⁵

Conclusion

This chapter has provided an overview of banking as an industry as background to field research to be presented in the chapters that follow on Jamaican commercial bank failures. In doing so, it has been argued that in the course of performing their core functions - lending, deposit taking and making payments - banks are open to a number of risks. Moreover, changes in banks’ operating environment and banks’ responses to those changes (ie, growth and expansion, computerisation and

restructuring) have introduced additional risks and threats to their internal control. In order to avoid failure and to remain competitive, banks increasingly must manage and monitor these risks carefully, together with their financial positions and performance. The careful management and monitoring of risk and financial position and performance requires that banks maintain effective control over internal operations, which is essentially tantamount to ensuring that accountability systems, as described in chapter two, are established and operate effectively. The Basle Committee on Banking Supervision has laid out a framework consisting of basic principles of effective internal control in banking. The principles of internal control outlined in the Basle Committee framework recommend accountability structures, systems and procedures as a means of establishing and maintaining effective organisational control. Accountability, it must be concluded therefore, is essential to effective risk management and, thereby, competitive viability in banking. Finally, the Basle Committee framework lends support to the theoretical framework advanced in chapters two and three in its inclusion of information and communication as an important aspect of effective internal control systems and by its acknowledgement that good record keeping underlies effective information and communication.

End Notes

¹ Shelagh Heffernan, *Modern Banking in Theory and Practice* (West Sussex: John Wiley & Sons, 1996), 15.

² Heffernan, 20.

³ See papers included in Financial Institutions Training Centre, *Deregulation in the Nigerian Banking*

Industry: Directions, Challenges, Problems and Prospects, Proceedings of the Bank Directors Seminar 1991 (Lagos, Nigeria: Financial Institutions Training Centre, 1991).

⁴ Ibid.

⁵ US investment banks began as underwriters of corporate and government security issues. Modern investment banks engage in a wide range of activities, including market making, consultancy, acquisitions, mergers, and fund management. UK merchant banks began as financiers of trade who guaranteed merchants' bills of exchange. Now, however, the merchant banks have expanded into market making, mergers and acquisitions, and dealing securities on behalf of investors. Retail banking, on the other hand, entails the provision of personal services to a large number of small customers.

⁶ Gerald Klein, *Dictionary of Banking*, 2nd ed. (London: Financial Times Publishing, 1995), 272.

⁷ Heffernan, 16.

⁸ Laws of Jamaica, The Bank of Jamaica Act, Act 17 of 1992, Part I, s. 2.

⁹ Laws of Jamaica, The Banking Act, L.N. 17/1992, Part I, s. 2.

¹⁰ Heffernan, 27.

¹¹ Heffernan, 27.

¹² Heffernan, 28.

¹³ Up until this date, the Glass-Steagall Act separated commercial and investment banking activities and limited the types of investments that banks could make; for example, they could not invest in securities brokerages. With repeal of the Act in 1999, U.S. banks became free to engage in a wider range of financial services.

¹⁴ Heffernan, 268.

¹⁵ Ray Kinsella, ed., *Internal Controls in Banking*. West Sussex, England: John Wiley & Sons, 1995), 4.

¹⁶ Joel Bessis, *Risk Management in Banking* (West Sussex: John Wiley & Sons, 1998), p.xii. Australian banking expert Robert Till has noted that the view of banks as solely a risk machine is tending to be the old paradigm. Banks now manage and offset these risks by providing a range of services for a fee, for example, wealth management advice; e-commerce partnerships; financial transaction processing; custodial services; risk management and advice; and estate management. Basically, according to Till, banks are realising the value of their infrastructure and are selling that capability to other organisations [Robert Till, email to author, 29 August, 2001]. This study still views the risk machine model of banking as valid, however, and sees banks' provision of services for fees as a type of risk management strategy.

¹⁷ Klein, 295 (entry for "gearing"). Most other types of businesses have 30% ratio of shareholder funds to financed debt, but for banks the average is 10% [Benton E. Gup, "Bank Growth and Failure," paper presented at the seminar on "Effective Corporate Governance," Ocho Rios, Jamaica, 13 May, 1999].

¹⁸ Bessis, p.xiii.

¹⁹ Marion Williams, "The Changing Role of Financial Training Institutions," paper presented at the 14th World Conference of Banking Institutes, Kingston, Jamaica, 25-30 March, 2001.

²⁰ Bessis, 5.

²¹ Heffernan, 165.

²² Basle Committee on Banking Supervision, "Core Principles for Effective Banking Supervision," Basle, Switzerland, September, 1997, 20. Large exposures in a single geographical area have recently been the cause of problems for Credit Suisse First Boston, which suffered full-year net losses of £93 million as a result of exposure to Russia. The problem arose from borrower defaults, coupled with foreign exchange losses and the collapse of Russian equities ["News Digest," *Financial World* (May 1999): 7].

²³ Basle Committee on Banking Supervision, "Core Principles for Effective Banking Supervision," 20. Connected lending was implicated in the Chilean banking crises of the 1980s [See Jorge Marshall, "Lessons Learned from the Chilean Experience," *Preventing Bank Crises: Lessons from Recent Global Bank Failures*, edited by Gerard Caprio Jr., et al, eds. (Washington, D.C.: The World Bank, 1998), 43-52.

²⁴ Heffernan defines securitisation as "the process whereby traditional bank assets (eg, mortgages) are sold by a bank to a trust or corporation, which in turn sells the assets as securities." [Heffernan, 28]. These securities can then be traded in the formal market just like other securities.

²⁵ Basle Committee on Banking Supervision, "Enhancing Bank Transparency," Basle Switzerland, September, 1998, 21.

²⁶ Bessis, 7

²⁷ Ibid.

²⁸ Bessis, 8.

²⁹ A coupon refers to "a detachable part of a bond or certificate which is presented to either the issuer of the bond or his bankers which entitles the holder to the dividend/interest due." [Klein, *Dictionary of Banking*, 65.].

³⁰ A future is a contract to buy or sell a specific amount of a named commodity or financial paper at an agreed price on a given future date. A forward is a contract for the purchase or sale of a specific commodity, security, foreign currency or any other financial instrument for delivery and payment at some future date. The main difference between futures and forwards is that in the case of futures the price is marked to market on a daily basis and therefore fluctuates; both parties to the transaction must post collateral for settlement of any changes in value. The price of forwards on the other hand does not fluctuate but is set at the time of the transaction. An option is a contract for the right to buy or sell a commodity or financial paper by a set date; a fee is paid for the contract and the option expires on maturity if the right is not exercised. A swap is simply the swap of one thing for another; for example, in the foreign exchange market it is the purchase or sale in the current market for a simultaneous purchase or sale in the future foreign exchange market [Klein, *Dictionary of Banking*, 123, 128, 220, and 310.]

³¹ Heffernan, 181.

³² It should be noted that some countries do not allow their interest rates to fluctuate in response to the market (eg, the Eastern Caribbean States). In these countries interest rates are set and controlled by the government. The World Bank's Structural Adjustment Programme has aimed to eliminate government control of interest rates to permit them to float freely in response to market forces.

³³ Off-balance sheet banking has become increasingly popular with banks as a means of protecting themselves against other risks. Off-balance sheet items include contingent commitments (eg, promises of future loans) or contracts that generate income for a bank but do not appear on its balance sheet [Heffernan, 28]. They can range from stand-by letters of credit to complex derivatives, which is the term given to any instrument the price of which is based on its underlying assets, for example, pork

futures are based on the underlying future market value of pork. [Klein, *Dictionary of Banking*, 80].

³⁴ Basle Committee on Banking Supervision, "Core Principles for Effective Banking Supervision," 21.

³⁵ Heffernan, 167.

³⁶ These different types of risks are discussed in Heffernan, 10, 166-168, 293, 308-309; George C. Kaufman, "Summary," in *Preventing Bank Crises: Lessons from Recent Global Bank Failures*, Gerard Caprio Jr., et al, eds. (Washington, D.C.: The World Bank, 1998), 341; Basle Committee on Banking Supervision, "Core Principles for Effective Banking Supervision, 21-22; Bessis, 10-12; Beatriz Armendariz de Aghion and Francisco Ferreira, "The World Bank and the Analysis of the International Debt Crisis," *The New Institutional Economics and Third World Development*, John Harriss, Janet Hunter and Colin M. Lewis, eds. (London: Routledge, 1995), 221-226; Michael Murphy, "The Unmanaged Risk," *The City 5* (Winter 1998): 26-29; Anthony Walsh, "Internal Control in the Computerized Banking Environment," *Internal Controls in Banking*, Ray Kinsella ed. (Chichester: John Wiley & Sons, 1995); David Law, "Keeping an Eye on Risk," *Financial World* (March 1999): 32-33; Andrew Newton, *The Handbook of Compliance: Making Ethics Work in Financial Services* (London: Financial Times Pitman Publishing, 1998); Basle Committee on Banking Supervision, "Operational Risk Management," Basle, Switzerland, September, 1998; Basle Committee on Banking Supervision, "Risk Management for Electronic Banking and Electronic Money Activities," Basle, Switzerland, March 1998.

³⁷ A 1998 paper by the Basle Committee on Banking Supervision noted that awareness of operational risk as a separate risk category at the board of director or senior management level has been increasing. However, as operational risk is a newly recognised area of banking risk, there is no general agreement as to what it encompasses. Many banks have defined it as any risk not categorised as market or credit risk. Some have defined it as the risk of loss arising from human or technical error. Many banks associate operational risk with settlements or payments risk and business interruption, administrative and legal risk. Most banks view technology risk (ie, the risk of a major system failure) as a type of operational risk, while some banks view it as a class of risk in its own right. Also, the majority of banks associate operational risk with all business lines, including infrastructure [Basle Committee on Banking Supervision, "Operational Risk Management."]. In his book on risk management, Joel Bessis defines operational risk as "those malfunctionings of the information systems, of reporting systems, and of the internal risk monitoring rules." [Bessis, 12].

³⁸ Andrew Sheng, "Bank Restructuring Revisited," *Preventing Bank Crisis: Lessons from Recent Global Bank Failures*, Gerard Caprio Jr. et al eds. (Washington, D.C.: The World Bank, 1998), 325.

³⁹ Douglas D. Evanoff, "Global Banking Crises: Commonalities, Mistakes, and Lessons," in *Preventing Bank Crises: Lessons from Recent Global Bank Failures*, Gerard Caprio Jr. et al, eds. Washington, D.C.: The World Bank, 1998), 249-254. One exception is Brazil, where state banks became insolvent without any macroeconomic crisis [John Williamson, "Bank Crisis: Commonalities, Mistakes, and Lessons Viewed from a South Asian Standpoint," in *Preventing Bank Crises: Lessons from Recent Global Bank Failures*, Gerard Caprio Jr. et al eds. (Washington, D.C.: The World Bank, 1998), 288.

⁴⁰ Heffernan, 308.

⁴¹ See Heffernan, 268-297 and James R. Barth and Robert E. Litan, "Lessons from Bank Failures in the United States," Thomas F. Cargill, Michael M. Hutchinson, and Takatoshi Ito, "The Banking Crisis in Japan," Richard J. Herring, "Banking Disasters: Causes and Preventative Measures, Lessons Derived from the U.S. Experience," and Michael Borish and Fernando Montes-Negret, "Restructuring Distressed Banks in Transition Economies: Central Europe and Ukraine," in *Preventing Bank Crisis: Lessons from Recent Global Bank Failures*, Gerard Caprio Jr. et al eds. (Washington, D.C.: The World Bank, 1998).

⁴² Karin Lissakers, "The Role of the International Monetary Fund," in *Preventing Bank Crises: Lessons from Recent Global Bank Failures*, Gerard Caprio Jr. et al eds. (Washington, D.C.: The World Bank,

1998), 30.

⁴³ Heffernan, 292, and James R. Barth and Robert E Litan.

⁴⁴ Heffernan, 294. Also, Gerard Caprio, Jr. has observed that: "Evidence from around the world clearly demonstrates that many regulators have become poor and unfaithful agents for their principals (the taxpayers) and have, albeit unintentionally, exacerbated the frequency of banking crises. This agency problem has been as costly as the banks' moral hazard problem. Thus a failure to police reckless drivers puts other drivers at risk. Likewise, highway departments have learned that putting guardrails on mountain passes encourages some drivers to increase their speed and increase, rather than decrease, the likelihood and severity of accidents." [Gerard Caprio Jr et al, eds., *Preventing Bank Crises: Lessons from Recent Global Bank Failures* (Washington, D.C.: The World Bank, 1998), xi]

⁴⁵ See for example, James R. Barth and Robert E. Litan, 134.

⁴⁶ Jaffa, 132. Thomas Cargill et al make the same argument with respect to the collapse of Japanese banks [Cargill et al, 187].

⁴⁷ George C. Kauffman, "Bank Failures, Systemic Risk, and Bank Regulation," *The Cato Journal* 16,1 (Spring/Summer 1996): 1-19, accessed online over the Internet 10 March, 1998 and available at <http://www.cato.org/pub/journal/cj16n1-2.html>.

⁴⁸ See, for example, Basle Committee on Banking Supervision, "Enhancing Bank Transparency: Public Disclosure and Supervisory Information that promote Safety and Soundness in Banking Systems," Basle, Switzerland, September, 1998; Thomas F. Cargill et al, "The Banking Crisis in Japan," *Preventing Bank Crises: Lessons from Recent Global Failures*, Gerard Caprio, Jr., et al, eds. (Washington, D.C.: World Bank, 1998): 303-324; Michael H. Moskow, "Regulatory Efforts to Prevent Banking Crises," *Preventing Bank Crises: Lessons from Recent Global Failures*, Gerard Caprio, Jr., et al, eds. (Washington, D.C.: World Bank, 1998): 13-26.

⁴⁹ Paul L. Bydalek, "Lessons from Recent Global Bank Failures: The Case for Brasil," *Preventing Bank Crises: Lessons from Recent Global Failures*, Gerard Caprio, Jr., et al, eds. (Washington, D.C.: World Bank, 1998): 53-68.

⁵⁰ This opinion was shared by a senior FINSAC official (see subject A-5, personal interview, Kingston, Jamaica, 1 June, 1999).

⁵¹ For a full discussion of the failure of these banks see Heffernan, 268-297.

⁵² Heffernan, 292.

⁵³ Michael Borish and Fernando Montes-Negret, 77.

⁵⁴ Heffernan, 292.

⁵⁵ Jaffa, 44-66.

⁵⁶ Jaffa, 44-66.

⁵⁷ For a full discussion of the failure of these banks see Heffernan, 268-297.

⁵⁸ Heffernan, 293.

⁵⁹ Richard J. Herring, "Banking Disasters: Causes and Preventative Measures, Lessons from the U.S. Experience," in *Preventing Bank Crisis: Lessons from Recent Global Bank Failures*, Gerard Caprio Jr. et al, eds. (Washington, D.C.: The World Bank, 1998): 209-236.

⁶⁰ Heffernan, 294.

⁶¹ Email from Robert Till to author, 29 August, 2001.

⁶² The idea that financial systems operate as complex adaptive systems comes from an article by T. Mouck who, applying chaos theory, describes capital markets as complex adaptive systems. In his article, Mouck points out that this view of capital markets is challenging widely accepted methodological approaches to capital market research, most notably with respect to assumptions of linearity and predictability [see T. Mouck, "Capital Markets Research and Real World Complexity: The Emerging Challenge of Chaos Theory," *Accounting, Organization and Society* 23, 2 (1998): 191].

⁶³ See *World Development Report* and Charles W. Calomiris and Gary Gorton, "The Origins of Banking Panics: Models, Facts and Bank Regulation," *Financial Markets and Financial Crises*, Glenn R. Hubbard, ed. (Chicago: University of Chicago Press, 1991), 109-174.

⁶⁴ These factors are discussed in Dimitris Chorafos, *Bank Profitability* (London: Butterworths, 1989); James Lynch *passim*; Leonard Sinclair, "Managing Credit Risk in Medium-Sized Corporates," *Understanding and Managing Risk: Papers of the Cambridge Seminar, 10-15 September, 1995* (Cambridge: University of Cambridge, 1995); "Knowledge Engineering for Financial Institutions Special Report," *Financial World* (February 1999), 21-50; and Law, 34.

⁶⁵ Brian Quinn, "The Bank of England and the Development of Internal Control Systems," in *Internal Control in Banking*, Ray Kinsella ed. (Chichester, John Wiley & Sons, 1995), 37.

⁶⁶ Marshall, 48.

⁶⁷ Ibid, 38.

⁶⁸ Basle Committee on Banking Supervision, "Risk Management for Electronic Banking and Electronic Money Activities."

⁶⁹ Kevin Thomson, "Communicate to Compete," *Financial World* (May 1999): 23.

⁷⁰ Ibid.

⁷¹ Quinn, 35.

⁷² Basle Committee on Banking Supervision, "Framework for the Evaluation of Internal Control Systems" (Basle, Switzerland, Basle Committee on Banking Supervision, January, 1998) 1.

⁷³ W.J. McDonough, "The Derivatives Angst," *Financial Times*, 15 August, 1994.

⁷⁴ Ibid, 34.

⁷⁵ Law, 34.

⁷⁶ Kinsella, 1.

⁷⁷ Cited in Kinsella, 7.

⁷⁸ Quinn, 38.

⁷⁹ Kinsella, 3.

⁸⁰ Kinsella, 2.

⁸¹ Basle Committee, “Framework for the Evaluation of Internal Control Systems,” 1 fn 1.

⁸² Basle Committee, “Framework for the Evaluation of Internal Control Systems,” 1.

⁸³ Basle Committee, “Framework for the Evaluation of Internal Control Systems,” 5.

⁸⁴ Basle Committee, “Framework for the Evaluation of Internal Control Systems,” 4.

⁸⁵ Ibid, 17.

Chapter Six: The Jamaican Financial Crisis - Explaining the Collapse of Jamaica's Indigenous Commercial Banks

Introduction

This is the first of four chapters that presents the findings of the field research conducted for this study on the collapse of several indigenous Jamaican commercial banks. The central question that this chapter and the others that follow seek to explore is: To what extent, if any, can poor record keeping practices be implicated in the collapse of failed Jamaican commercial banks? The purpose of seeking an answer to this question is to use the case study of the failed Jamaican commercial banks to provide empirical evidence of the theoretical linkages among competitive viability, accountability and record keeping as discussed in chapters two and three of this study.

Discussion of the research findings begins in this chapter with an overview of the field research. Background information is then provided on the Jamaican financial

crisis, presenting the argument that weaknesses in the banks' accountability systems contributed to their downfall. This discussion is used as evidence of the relationship between competitive viability and accountability outlined in chapter two. In support of the theoretical relationship between accountability and record keeping put forth in chapter three, the arguments in this chapter are followed in chapter seven by empirical evidence that shows how poor quality information, the result of the banks' records creation and keeping practices, weakened their accountability systems and resulted in a loss of internal control and poor decision making that eventually led, in combination with exogenous and other endogenous factors, to the banks' downfall. Chapter eight then explores why the banks' records creation and keeping practices were so poor. In chapter nine, discussion of the research findings focuses upon how the banks' record creation and keeping practices affected bank supervision and, subsequently, government intervention in and rehabilitation of the failed Jamaican commercial banks. Finally, discussion of the research findings concludes in chapter ten with observations about the lessons to be learned from the Jamaican experience.

An Overview of the Field Research

This particular chapter and the others which follow present and analyse field research data primarily collected between May 1999 and November 2000 on four failed and two viable Jamaican commercial banks as a means of exploring the relationships among competitive viability, accountability and record keeping. The data on which the findings in this chapter are based include interviews with officials at the Financial Sector Adjustment Company (FINSAC) Limited and officials in both failed and

viable commercial banks, physical examination of records and record keeping systems of both failed and viable commercial banks, and review of relevant documents, such as commercial bank policies and procedures. As the data collected relate to four of six failed Jamaican commercial banks, they are considered to be reasonably representative of the entire population of failed Jamaican commercial banks. The data were coded and analysed using qualitative data analysis software in accordance with the Grounded Theory-based methodology set out in Appendix 2.

The interviews constitute, by far, the most important source of information about the operations of Jamaican commercial banks, both those that failed and those that did not. Approximately 50 ethnographic interviews were conducted with FINSAC officials (8 interviews); with former directors (3 interviews), senior executives and operational managers (19 interviews), and other staff (3 interviews) of four failed Jamaican commercial banks; with senior executives and operational managers (12 interviews) and other staff (2 interviews) in two viable Jamaican commercial banks; with external and forensic auditors and with other individuals close to the institutions involved in the Jamaican banking crisis (3 interviews). These people were surprisingly candid in discussing the problems encountered during the Jamaican financial collapse. More detailed information about the nature of the interview subjects and the types of questions they were asked is provided in Appendix 1.

Given the sensitivity of the research topic, the identity of interview subjects and the institutions for which they work has had to be protected; therefore, in citations of interviews, subjects are identified only by an assigned alphanumeric code, not by

name or institution, and all references that would link them to a particular institution have been removed.

The Collapse of the Jamaican Financial Sector

From the beginning of the 1990s symptoms of fundamental problems in the Jamaican financial sector began to appear.¹ By mid 1996, it was apparent that the financial sector was in a state of crisis, a crisis that would lead to the insolvency and technical failure of all of Jamaica's indigenous commercial banks, save one, in the span of two years (see Table 6-1 below).² In response to the growing crisis, in January 1997, the Government of Jamaica established the Financial Sector Adjustment Company (FINSAC) Limited to address the liquidity and solvency problems being experienced within the sector through a process of intervention, rehabilitation and divestment. As of 1998, FINSAC had become Jamaica's largest holding company with some 158 companies and investments in nearly all domestically owned financial institutions. It also had provided support to the financial sector by way of acquisitions and soft lending totalling \$J73.5 billion (\$US1.8 billion), of this \$J68 billion (\$US1.7 billion) was in support of the banking sector covering 1.5 million depositors. Through its intervention in the financial sector, FINSAC came to own or control all domestic banks (with the exception of the very small Trafalgar Commercial Bank) or approximately 60 percent of all the country's banking assets.³

Table 6-1: Summary of Failed Jamaican Commercial Banks and GOJ/FINSAC Intervention

Bank	Intervention
Century National Bank	Placed under temporary management by the Minister of Finance in July 1996.
Citizens Bank	FINSAC acquires controlling interest in September 1997 by virtue of its 84% purchase of ordinary shares. FINSAC also acquires the banks' non-performing loan portfolio to provide additional liquidity and solvency. Now merged to form Union Bank, which subsequently has been sold to the Royal Bank of Trinidad and Tobago (hereafter referred to as RBTT)
Eagle Commercial Bank	FINSAC provides J\$553.3 million (\$US1.4 million) in financial assistance and additional assistance for the payout of advances from the Bank of Jamaica in November 1997 and later purchases at a nominal price in 1998. Now merged to form Union Bank, which subsequently has been sold to RBTT.
Island Victoria Bank	FINSAC purchases the bank for J\$8.5 billion (\$US212.5 million) and transfers its shares to Eagle Commercial Bank in 1998. Now part of Union Bank, which subsequently has been sold to RBTT.
National Commercial Bank	FINSAC acquires controlling interest in February 1997 with the acquisition of 40% of outstanding ordinary shares of NCB plus 43.8% of NCB Group for a total holding of 68%. FINSAC also purchased \$J12.7 billion (\$US67.5 million) in non-performing loans to provide additional liquidity and solvency. November 2000 NCB shareholders vote for a restructuring of the bank. Under the arrangement, all public shareholders in NCB Group receive one share in NCB for each Group share they own. FINSAC's preference shareholding of \$J5.3 billion (\$US 132.5 million) in the Group is converted to a 76% holding of ordinary shares in the Bank. NCB sold to Canadian-based AIC Limited for \$6.034 billion (\$US 150 million) in January 2002.
Workers Savings and Loan Bank	Placed under temporary management by the Ministry of Finance in February 1997 and FINSAC provides \$J8.5 billion (\$US212.5 million) in overdraft support loan in February/March 1998. Now merged to form Union Bank, which subsequently has been sold to RBTT.

Sources: Financial Sector Adjustment Company (FINSAC) Limited, Auditors' Report and Financial Statements, January 29, 1997 to March 31, 1998; FINSAC, Annual Report, 1998, 15-25; Government of Jamaica, Ministry of Finance, "Public Sector Response to the Problems of the Financial Sector," Ministry Paper No. 13/98, 8 April, 1998; Government of Jamaica, Ministry of Finance, "FINSAC," Ministry Paper No. 31/98, 27 October, 1998; Bank of Jamaica, Annual Reports, 1996-1997; "Shareholders Back NCB Scheme," The Gleaner, November 9, 2000, A-3; "Union Bank Sold," The Gleaner Wednesday, March 14, 2001, Online, Internet www.jamaica-gleaner.com, 11 September, 2001; "NCB Sale Settled," Saturday, 12 January, 2002, Online, Internet www.jamaica-gleaner.com, 12 January, 2002.

The financial crisis has driven the country into an enormous debt trap from which, at present, it is difficult to see how it will recover.⁴ FINSAC's initial \$J73.6 billion (\$US1.8 billion) infusion of capital into the country's financial sector represented 60 percent of the Government of Jamaica's total budget for the year (1998) and raised the country's burden of debt servicing to approximately 65 percent of its annual revenue (see Table 6-2).⁵ As of 2000, the FINSAC bail out had cost the Jamaican Government and taxpayers an estimated \$J130 billion (roughly \$US 3.2 billion), which equates to roughly 44 percent of GDP, during the longest period of negative economic growth in the country's history.⁶ Not only has the economic cost of these bank failures been high, there has been a high social cost as well. In 1999, the Government's efforts to raise funds to cover the debt through placing higher taxes on gasoline led to riots and protests across the country that had serious economic and social ramifications.⁷ Moreover, the Jamaican Government has had to reduce spending drastically on critical social programmes, education, health and maintenance of the country's infrastructure of roads, water and waste disposal systems. In addition, the bank collapses have tightened up credit, which has hampered the growth of the productive sector and limited employment. Given the economic and social impact of these bank failures, it is clearly important to understand fully all of the factors contributing to their collapse.

Table 6-2: Jamaican Public Debt

Item	96/97	97/98	98/99	99/00	July 2000
Domestic Debt (in billions of Jamaican dollars)	85.2	101.5	139.2	175.3	189.2
External Debt (in billions of Jamaican dollars)	111.2	117.7	123.1	133.4	128.9
Total Debt Stock (in billions of Jamaican dollars)	196.4	219.2	262.3	308.7	318.1
Domestic Debt/GDP	38.2%	42.1%	53.1%	60.5%	-
External Debt/GDP	49.9%	48.8%	48.2%	47.6%	-
Debt service/total revenue	57.0%	61.1%	65.8%	82.5%	-
Debt service/total spending	38.8%	37.6%	42.8%	52.4%	-
Total debt/GDP	96%	97%	110%	120%	-

Source: “Domestic debt jumps again,” Financial Gleaner, October 27, 2000, 3.

Explaining the Collapse of Jamaica’s Indigenous Commercial Banks

A number of cumulative and dynamically interrelated factors can be cited as sources of the problems experienced by the Jamaican commercial banks. These problems ultimately saw the country’s entire financial system become a “weak and vulnerable ‘house of cards’ ready to fall to the ground.”⁸ The following discussion summarises emerging debate about the reasons for the sector’s problems, drawing upon observations of Jamaican academics, financial analysts, bankers, regulators, government officials, development administrators and field research interview subjects.

In keeping with the theoretical framework outlined in chapter two, the contributory factors can be grouped into two broad categories: 1) exogenous, that is, those factors originating outside of the banks and 2) endogenous factors, those factors originating inside the banks and relating to the business strategies bankers pursued and the way that they conducted their business in response to exogenous factors. Though it is possible to discern these two categories when analysing the factors contributing to the banks' problems, such factors do not exist in isolation and therefore cannot be looked at entirely independently of one another.

Many explanations of the bank failures, not surprisingly those most often given by supporters of the Government Opposition Jamaica Labour Party (JLP), typically have focused on exogenous factors such as the state of the country's economy and weak regulatory framework. Though partly to blame, this study contends that these factors do not provide fully satisfactory explanations for the collapse of the country's indigenous commercial banks. Rather, in keeping with the theoretical framework set out in chapter two, this study presents empirical evidence to support the argument that the external operating environment gave rise to conditions that prompted directors and managers of the failed banks to increase the size and scope of their banking operations. With growth and innovation came a level of decentralisation and specialisation that weakened directors' and managers' control over their banks. These internal control problems could have been dealt with had directors and managers of the failed banks established and maintained effective systems of internal accountability and control for all aspects of the banks' business activities. In many

cases, however, they failed to understand the need to establish systems of internal accountability and control to address new business areas and risks. Equally importantly, their existing systems of internal accountability and control did not function effectively for a variety of reasons which will be discussed fully further along in this chapter. As a result, the banks succumbed to the inevitable dissolution that results from uncontrolled growth and innovation as discussed in chapter two. The case for this argument begins in this chapter with a review of factors typically cited as having contributed to the Jamaican bank failures.

Exogenous Factors

Analysts and commentators point to a number of exogenous factors as having contributed to the collapse of Jamaica's indigenous commercial banks. In particular, commentators identify the Government of Jamaica's macroeconomic policy and failure to properly regulate the financial sector as principal among the sector's problems. It must be emphasised that because the purpose of this study is not to present a *definitive* causal explanation for the Jamaican banking crisis, but rather to implicate poor record keeping as a factor in the collapses, the discussion encompasses only areas of general consensus about interrelationships between these exogenous factors and the bank failures as opposed to presenting a more exhaustive and detailed set of arguments and counter-arguments relating to the relative significance and interrelationships among the factors.

As mentioned in chapter five, quantitative studies of the causes of bank failures indicate a positive correlation between bank failures and macroeconomic instability, marked by indicators such as rising nominal interest rates, increases in the real exchange rate and rising inflation.⁹ All of these signs of trouble were in evidence in the years leading up to the recent problems in Jamaica's financial sector (see Table 6-3). A number of reasons for the country's macroeconomic instability have been advanced; however, there is a growing consensus that liberalisation policies that formed part of International Monetary Fund (IMF) programmes and World Bank Structural and Sectoral Adjustment loans contributed to Jamaica's macroeconomic instability.¹⁰

From the mid-1980s to the early 1990s, in accordance with the conditions of IMF and World Bank involvement in the country, the Jamaican Government introduced a number of structural reforms leading to liberalisation of the country's trade regime, foreign exchange markets and financial markets.¹¹ With liberalisation and structural adjustment came a devaluation of the Jamaican dollar. In 1989, the exchange rate was \$US1 to \$J6.50, but throughout the 1990s the Jamaican dollar began to slide drastically to reach its 1999 resting point of approximately \$US1 to \$J40. Not only did the exchange rate increase, between 1990 and 1993 inflation was averaging 49%.¹² In 1991, it reached its highest point of 80%, but declined thereafter.¹³ The necessity of supporting the Jamaican dollar and the existence of an inflationary environment led the Jamaican Government to raise interest rates. In December 1993 short-term lending rates rose to as high as 61.32%.¹⁴

Table 6-3: Macro-economic Indicators 1991-1997

Year	% Change in Money Supply¹⁵	Inflation Rate	Commercial Bank Lending Rate	Exchange Rate \$J: \$US
1991	63.5	80.2	40	12.85
1992	76.7	40.2	46.4	23.01
1993	43.7	30.1	61.3	25.68
1994	24.3	26.9	56.1	33.35
1995	25.2	25.5	55.2	35.54
1996	18.8	15.8	55.2	37.02
1997	14.0	9.2	44.2	35.58

Source: Paul Chen Young, *With All Good Intentions: The Collapse of Jamaica's Domestic Financial Sector*, Policy Papers on the Americas, Volume IX, Study 12 (Washington, DC: Centre for Strategic and International Studies, 1998), 9.

Although the Government had hoped that interest rate increases would buttress the faltering Jamaican dollar and “cool off” the inflationary economy by tightening the money supply, its policy had the opposite effect. Banks, rather than taking the signal to tighten up lending, speculated that the Government’s high interest rate policy was a short-term measure and continued to lend freely, attracted by the profit potential of high interest bearing loans. In fact, in the same year that the bank lending rate reached its peak (1993), commercial bank loans and advances increased by 67.5%.¹⁶

It was primarily these loans, made at exceptionally high and ultimately unsustainable interest rates, that later became non-performing.¹⁷ From the mid-1990s, several commercial banks began to experience a sharp decrease in the quality of their loan portfolio. In 1994 the number of non-performing loans rose by 7.4% of total loans against 5.7% the previous year. In 1996, the Bank of Jamaica Annual Report noted that some institutions had sought liquidity support to meet cash flow needs resulting

from a general deterioration in the quality of assets (11.3% non-performing loans).

Bank of Jamaica statistics for the same year indicate that banks' profitability was beginning to fall sharply.¹⁸

The banks' problems were compounded by the fact that high inflation resulted in an overvaluation of assets, especially property. Many of the banks were over exposed in this area because borrowers tended to pledge real estate as collateral on loans and many of the banks had made loans to connected parties (eg, investment arms and insurance companies that were offering investment or lump-sum policies that allowed them to take deposits disguised as premiums. These funds were used to finance longer-term investments in the real estate and tourism sectors) that were heavily into the real estate market.¹⁹ When the Government's liberalised monetary policies began to take effect around 1994 and inflation declined, the value of real estate plummeted, resulting in a lack of liquidity and under capitalisation in many Jamaican commercial banks. The Governor of the Bank of Jamaica had warned bankers of the effect of liberalisation but many took no notice, having been used to an inflationary environment where the value of even fixed assets such as cars increased over time rather than depreciating.²⁰

The high Jamaican-dollar short-term lending rate also encouraged many persons and commercial enterprises to seek loans denominated in foreign currency, for which lending rates were lower. This flight to foreign capital eventually placed added pressure on the Jamaican dollar causing further depreciation in value. Moreover, the

increased capital flows between Jamaican and international markets associated with globalisation more readily transmitted international economic fluctuations into the Jamaican economy, which again contributed to pressure on the Jamaican dollar.²¹ As the dollar continued to drop, many of those who had received foreign currency loans were unable to keep up payments, further eroding the quality of the banks' assets.

The high interest rate environment also encouraged individual investors to place their money in short-term, high-yielding instruments, such as time deposits. In 1994, time deposits grew by 71.5% over the previous year.²² Ultimately, the mix of short-term high-yielding time deposits and long-term loans created a mismatch between assets and liabilities in several banks and sowed the seeds of the banks' liquidity problems.

Moreover, high interest rates encouraged the development of the commercial paper market as, rather than seek loans to finance their activities, business enterprises were able to attract financing more easily by floating short-term, high-yielding lending instruments. Some banks were happy to back these instruments in order to avoid taxes and to reduce the amount they needed to set aside to meet statutory reserve requirements. In the long run, however, many of these business enterprises were unable to pay investors the sums owed on maturity of the commercial paper. The banks, which had guaranteed the commercial paper issues, were left "holding the bag."

Another of the elements of the Government's liberalisation policy involved bank regulatory reform. Prior to Jamaica's independence from Great Britain, its financial system was dominated by foreign-owned banks that operated in accordance with their home countries' prudential regulations and operating standards. Around independence (1962), the Government of Jamaica passed indigenous legislation governing banking operations.²³

Although the Government introduced periodic amendments to the 1960 Banking Act in response to the changing sectoral landscape, Jamaica's regulatory framework remained insufficient to address the new circumstances of the financial sector. The existing legislative framework made it all too easy for financial institutions to take advantage of regulatory arbitrage. For example, the Bank of Jamaica had no regulatory control over building societies and many commercial banks took advantage of this legislative loophole by selling problem loans to connected building societies in order to remove bad loans from their books.²⁴

To address regulatory weaknesses, in 1992 the earlier Banking Act was repealed and replaced with a new act and new legislation was passed to better monitor building societies.²⁵ According to many analysts and commentators, however, the 1992 Banking Act had a number of major design faults that contributed to the financial crisis. One Jamaican commentator, Dennis Boothe, argues that it encouraged wanton investments. Unlike the 1961 Act that stated that banks' fixed assets (eg, premises and real estate) could not exceed 40% of their capital base, the 1992 Act allowed a

bank to invest up to 100% of its capital in fixed assets.²⁶ This opened the door to the capital adequacy and liquidity problems the banks experienced when real estate devalued. The 1992 Act also allowed investment in non-financial assets up to 100% of a bank's capital base thus, according to Boothe, allowing banks to invest wildly in such things as hotels, agricultural enterprises and works of art in which they had no management expertise.²⁷

Ansord Hewitt, another analyst of the Jamaican financial collapse, argues that by not expressly prohibiting investment in financial activities in the list of banking activities, the Act essentially “made allowance” for the formation of financial conglomerates. As a result, while the legislation frowned on universal banking, there was recognition in 1992 when amendments to the Banking Act were made that banks were already heavily into other areas and that this situation was to be tolerated.²⁸ The legislation encouraged some Jamaican commercial banks, “near banks” and insurance companies to form large, complex financial groups, in many cases to take advantage of loopholes in the regulatory framework respecting taxes and reserve requirements (eg, building societies were created to hide bad loans from commercial banks and thereby reduce the level of funds banks had to set aside for loan loss provisioning). Thus, by the early 1990s an unhealthy pattern of interlocking institutional ownership had emerged and by 1995 there was an established pattern of groups boasting ownership of insurance companies, commercial banks, merchant banks, trust companies and investment houses.

According to economist Wilberne Persaud, these group structures destroyed corporate “fire walls,” placing added financial strain on the commercial banks.²⁹ In some cases the insurance companies pressured banks within their group of companies to approve dubious projects and provide loans on favourable terms and in excess of legal lending limits. Such loans to related parties contributed to contamination and decline of the financial sector (eg, Crown Eagle Life had an overdraft of \$J13.3 billion – \$US332 million - with Eagle Commercial Bank at the time of FINSAC intervention. National Commercial Bank, it was discovered when FINSAC intervened, held a \$J7.5 billion - \$US187.5 million - overdraft by Mutual Life).³⁰ This practice, ultimately, created liquidity problems in the banks, eventually leading to insolvency.

The 1992 Act also did not properly control entry into the sector, despite the Government’s stated intentions. In order to gain a licence applicants had to meet two conditions: they had to be “fit and proper” to run a bank and meet capital adequacy requirements (\$J60 million or approximately \$US2.6 million at 1992 rates of exchange).³¹ Hewitt points out that inflation eroded the capital adequacy limits set in 1992 and these were not changed again until 1997. Furthermore, as determination of who was fit and proper to start a bank was left solely to the Minister of Finance, some argue that it became largely a political decision.³²

Due to regulatory weaknesses, the Bank of Jamaica established a special task force in 1995 to “fast track” appropriate amendments to the Banking Act. These came into force in 1997. While the 1992 Act and its 1997 amendment, together with a series of

prudential guidelines on areas of operational and risk management introduced throughout 1995 and 1996 provided a more standardised legal framework of operations for commercial banks and introduced provisions aimed at enhancing prudent practice in the banking sector and strengthening the powers of supervisory authorities, many commentators believe that it came too late.

Besides these legislative weaknesses, the supervisory structure was designed only to deal with a small number of commercial banks. As the sector grew in size, inspections were not carried out on a regular basis and the time lag between inspections and issuance of reports became too long.³³ Moreover, supervisors could not deal adequately with specialist areas, particularly the loopholes and gaps in the legislation. The fact that there was no “super authority” to regulate the rising number of financial conglomerates and no legal regulations to facilitate the exchange of information between authorities or to permit the disclosure of information to the public and analysts also prevented proper supervision of Jamaican commercial banks according to some.³⁴

Whether it was as a result of an inability to take action due to a weak regulatory framework, lack of staff capacity, or political pressure, regulatory forbearance also is cited as a factor in the collapse. For example, Dennis Boothe notes that the Bank of Jamaica was aware that Century National Bank was experiencing major problems well before the Minister of Finance put it under temporary management and argues that the Bank of Jamaica should have taken action three years earlier than it did.³⁵

Ansord Hewitt notes that a Ministry of Finance press release indicated that as early as 1984 the Caldon Group had refused to provide information to the Bank of Jamaica but that supervisors allowed it to continue to operate until 1996-97.³⁶ The financial statements of many merchant banks and some commercial banks clearly indicated that there were breaches of provisions of the 1992 legislative framework revealing that the banks had seriously exposed themselves in real estate and large amounts of connected lending as far back as 1992.³⁷ Still the Bank of Jamaica failed to address these problems. Moreover, former Jamaican banker Paul Chen Young argues that even when the regulators finally did take action they did not provide adequate leadership and planning.³⁸

Regulatory forbearance also encouraged bankers to take decisions and actions with less than due diligence (the problem of moral hazard as discussed in chapter five). The Bank of Jamaica, as domestic lender of last resort, extended overdrafts to commercial banks during the height of the financial crisis. Jamaican financial analyst Jason Abrahams argues that this created a “total absence of moral hazard” because “high net worth depositors in Century, Eagle and Workers, for example, all enjoyed extraordinary premiums over the risk free interest rate of the day confident in the knowledge that if things got sticky the government would bail them out.”³⁹

A failure on the part of the banks’ external auditors to enforce international best practices in accounting only exacerbated regulatory and supervisory weaknesses contributing to the sector’s problems. Financial analyst Jason Abrahams notes one

particularly apt example of auditors' laxity in citing the case of a local financial institution that managed to convince its auditors that a \$J200 billion (\$US5 billion) unrealised loss it was facing on an investment need not be booked as the company's directors had a "high level of confidence" that these assets would soon recover in the international markets.⁴⁰ Many believe that auditors' laxity allowed a number of Jamaican financial institutions to get away with reporting their assets in a manner that proved misleading to shareholders, supervisory authorities and the public. In an attempt to address this perceived weakness, the Government of Jamaica passed an amendment to the Banking Act in 1997 that made it a duty for auditors to report to the chief executive officer of the bank, each director of the bank and the Bank of Jamaica any transactions or conditions that misrepresented the financial position of the bank, could jeopardize a bank's financial viability, or any financial irregularities.⁴¹ The act also made provision for the Bank of Jamaica to appoint special auditors in cases where there was reasonable cause to believe a bank's ordinary auditor should not conduct a particular audit.⁴² Again, these amendments arguably came too late.

Endogenous Factors

Though many of the failed banks' problems clearly were triggered by the economic and regulatory environment in which they operated, as the Government of Jamaica was quick to point out in its own defence, the fact that some banks failed while other,

foreign-owned, banks, such as the Bank of Nova Scotia, profited during the same period and under the same operating conditions requires investigation and further explanation as it suggests that exogenous factors alone cannot account for the bank failures. Rather, it implicates the decisions and actions of directors and managers of the failed banks taken in response to their external environment.⁴³ Indeed, Jamaica's Minister of Finance, Dr. Omar Davies, has referred to decision-making and judgments of directors and managers in the failed banks during the period as "warped and twisted."⁴⁴

It is, nevertheless, possible to argue that decision-making was no better in some of the foreign banks and that their success is really due to the fact that they simply had deeper pockets and bigger reputations to trade on.⁴⁵ This must not be dismissed as an explanation, since a senior treasury official in one of the foreign-owned banks admitted in an interview conducted for this study that the bank had received what amounted to a "bail out" from its parent company. As this official commented, the Jamaican subsidiary ran into the same liquidity problems as the banks that failed; however, unlike the failed banks, which were all indigenous, this foreign-owned bank was able to tap into the reserves of its parent company in order to avoid insolvency.⁴⁶ In contrast, another foreign bank included in the research sample needed no additional liquidity support from its parent. In addition, though some of the foreign banks had well-established island-wide branch networks and enjoyed low cost of funds, the same can be said of the indigenous National Commercial Bank that failed. Indeed, in 1998 the Bank of Nova Scotia had 44 branches and the National

Commercial Bank had 42.⁴⁷ In addition, one of the viable commercial banks had only one branch. This indicates that directors and managers in at least some of the viable banks made very different, obviously more prudent, decisions faced with arguably the same external operating conditions as other banks.

However, a case also can be made that the external operating conditions of the indigenous Jamaican banks that failed and the foreign-owned banks that remained viable during the financial crisis were not precisely the same by virtue of the fact that, in addition to Jamaican regulatory and supervisory requirements, foreign owned banks were subject directly and indirectly to the regulatory requirements of the country out of which the parent company operated. It can be argued that these additional, and more stringent, regulatory and supervisory requirements encouraged more prudent decision-making on the part of directors, managers and employees of the foreign banks and prevented them from engaging in the speculative and sometimes corrupt business practices that characterised the failed indigenous banks. There is some support to be found for this line of argument in the results of the field research conducted in one of the foreign-owned banks. In this bank, interview subjects' statements indicated a relationship between foreign supervisory requirements and the parent company's strong internal control culture, which in turn influenced the behaviour of managers and employees at the local level with respect to internal control and risk management practices.⁴⁸ However, the fact that another of the foreign banks, despite being subject to foreign regulatory requirements, experienced operating problems similar to the failed banks suggests that the need to

meet foreign regulatory and supervisory requirements may not have been that significant a factor. More detailed comparative analysis of the regulatory and supervisory frameworks under which the foreign banks operated and how these influenced the banks' internal control systems would be needed before any definitive conclusions could be reached about the significance of this factor.

If parent company support and access to a larger customer base does not account for the continuing viability of all the foreign-owned banks and it appears that, in many cases, the banks that did not fail took more prudent decisions and adopted better strategies - whether or not as a result of additional foreign regulatory requirements - we must ask what can account for the poor decision making and operating problems of the failed banks? In the public debate surrounding the bank failures, many commentators have blamed bankers' decisions and actions on "sharp practice," by which is meant practices that are illegal, bordering on the illegal or self-dealing motivated by a desire for short-term financial gain. A Government paper citing the causes of the bank failures accused directors and managers of these banks, in certain instances, of "actions that were flagrantly dishonest and in the sole interest of the major beneficial shareholder and/or the latter's associates."⁴⁹ Indeed, investigation into accusations of fraudulent practices on the part of some directors and managers in several failed Jamaican financial institutions is ongoing.⁵⁰ Examples of directors' and managers' sharp practice include allegations that they took out loans for themselves or close associates at subsidised rates of interest with no intention of paying the loans back. Other observers of the Jamaican financial crisis have cited cases of directors

and managers taking advantage of weaknesses in the country's regulatory framework to increase short-term profit returns.⁵¹ In addition, the Governor of the Bank of Jamaica has stated publicly that the banks' problems arose because senior directors and managers deliberately used "creative accounting" with respect to asset valuation and income recognition in order to avoid having to set aside funds to provide for a growing number of non-performing assets, a practice motivated by directors' and managers' desire for short-term profitability.

While there is evidence to support the argument that a number of directors and managers in the failed Jamaican banks were engaged in these types of sharp practices, on its own this argument fails to account for the *sheer pervasiveness* of internal operating problems in the failed banks. For example, a Ministry of Finance and Planning paper on the problems of the collapsed banks cites a wide variety of internal operating problems, such as inadequate credit/investment assessment and monitoring; excessive credit concentration; inadequate capital levels; high and non-income earning levels of related party exposure; high and increasing levels of non-performing assets; and absence of, or failure to comply with proper internal control procedures and effective risk management principles.⁵² As this list of the banks' problems suggests, any line of argument that relies on the assumption that bank directors and senior managers knew exactly what they were doing and had adequate control over their operations and risks at all times is untenable. While it is true that directors and senior managers were aware, to some extent, of their non-performing loans as evidenced by the fact that a number of them took steps to hide these problems from

the regulatory authorities using various strategies, the very fact that the banks had such a high degree of non-performing loans coupled with public statements by several different commentators and the data collected for this study equally indicate that the banks' directors and senior managers in many cases could not manage or did not recognise the full extent of the risks they faced.⁵³ Far from being "masterminds", the failed banks' directors and managers apparently had lost control of their financial institutions. They seemed not to know what was going on or, if they did, not to know how to deal with it.

While the effects of sharp practice should not be underplayed, the field research results suggest that it is also possible to link directors and managers of the failed banks' loss of control over their financial institutions with the argument advanced in chapter two that growth and innovation, required to maintain their competitive position in a changing economic environment, led to decentralisation of information processing, information, and incentives. This, in turn, caused information related problems leading to operational inefficiencies.

During the period of the financial crisis, the failed banks experienced growth and innovation in a variety of forms.⁵⁴ First, liberalisation of the foreign exchange and capital markets opened the door for banks to become involved in areas of business activity, such as foreign exchange and commercial paper trading, in which they had not previously engaged. Second, the de facto easing of restrictions on licences for the establishment of financial institutions encouraged growth in the banking sector.⁵⁵

Between 1977 and 1994 annual growth in terms of financial turnover moved from 9% to 50% and the average annual growth rate was 17% at a period when the economy was experiencing negative growth.⁵⁶ In 1980 there were 36 licensed commercial banks, building societies and financial institutions with total assets of \$J2.5 billion (\$US62.5 million). By 1996 the number of licensed institutions stood at 57 with total assets of \$J192.6 billion (\$US4.8 billion). Increasing competition in the sector prompted directors and managers of the failed banks to establish additional branches in a bid to protect their market share. In 1987 there were 156 commercial bank branches. By 1994 the number had expanded to 201.⁵⁷ Increased competition also placed pressure on banks with smaller customer bases to offer more attractive rates of return on deposits, which, in turn, increased their cost of operation and exposed them to greater market and liquidity risk. Finally, the regulatory framework in place at the time encouraged banks to diversify into non-core areas of business in which they had little or no management expertise, as already discussed.

The banks' growth and expansion in terms of new products, services, branches and areas of operation throughout the 1990s resulted in a rising number of business transactions for processing that necessitated a concomitant level of decentralisation and specialisation. For example, in one bank with a large branch network credit administration was decentralised and delegated to branch staff in order to facilitate increased transaction processing.⁵⁸

There is evidence to suggest that as the banks decentralised they experienced the types of problems discussed in chapter two as arising from decentralisation of information processors, information and incentives, that is, the problems of information asymmetry and bounded rationality. For example, after decentralising its credit operations, this same bank found it necessary only a few years later to re-centralise the function due to internal control problems that had developed during the period of decentralisation.⁵⁹ Under the decentralised system of credit administration there had been too many bank officers making decisions about the extension of credit, each with their own motivations (ie, more interested in selling loans than in prudent credit risk management), and too little information flowing to managers and directors about bank officers' credit decisions and actions.

Lack of information prevented managers and directors from holding these officers accountable for their decisions and actions in order to maintain internal control or acquiring the information they as managers required to take sound decisions and actions with respect to business strategy. Although this bank's experiences with managing its credit operations offers but one example, it is evident that other of the failed banks were experiencing similar internal control problems. In discussing the bank failures, the former Governor of the Bank of Jamaica described how the banks had poor credit practices and inadequate control environments.⁶⁰ Similarly, a Government of Jamaica paper pointed out that the failed banks suffered from absence of, or failure to comply with, proper internal control procedures and effective risk management principles.⁶¹ Given that growth and innovation had increased the level

of risk associated with many of the indigenous banks' transactions, the banks' absence of effective internal controls and risk management was extremely dangerous.

Also of note in relation to the argument that growth and innovation destabilised internal control and decision making in the failed banks is the fact that the single foreign bank included in the field research sample that experienced similar rapid growth and decentralisation also experienced similar operating problems and required an infusion of funds from its parent company to avoid insolvency.⁶² In contrast, a foreign bank that did not exhibit signs of internal operating problems remained relatively small during the period and did not expand its branch network, though it did operate subsidiary companies.⁶³ Furthermore, though not included in the research sample, the only indigenous Jamaican bank not to fail during the period was one that was very small in terms of size and scope of operations in comparison to the banks that failed.⁶⁴ Thus, the results of the empirical research suggest that growth, innovation, and decentralisation contributed to the operational inefficiencies that contributed to the collapse of almost all of Jamaica's indigenous commercial banks.

As argued in chapter two, accountability serves as a remedy to the inherent operational problems introduced by decentralisation and specialisation. Thus, the establishment of strong systems of internal accountability would have served to counteract the operating problems brought about by growth and innovation. Unfortunately, in many cases, directors and managers failed to establish such systems.

This brings the discussion to another popular argument that has been advanced to explain the bank failures. Many analysts have argued that Jamaican bankers failed to establish effective controls to manage areas of risk brought about by their expansion into new products and services in the context of a volatile financial environment. As already noted, the operating environment in which Jamaican bankers functioned became much more complex throughout the 1990s. Prior to liberalisation and structural adjustment, foreign exchange and interest rates were steady and the value of assets was not subject to severe market fluctuations. Moreover, bankers were not involved in as many business activities sensitive to these risks. Many have argued that bankers in the failed Jamaican banks had little experience with managing new areas of risk brought about by changes in their operating environment and expansion into new products and services. For example, as already noted, increased competition forced the banks to offer higher rates of interest on deposit accounts. This situation reduced the comfortable interest rate spreads the banks previously had enjoyed between their assets and liabilities and required the banks to monitor asset and liability mismatches much more closely, particularly as interest rates were fluctuating widely during the period. Despite the need for tighter monitoring and control of asset and liability mismatches, it was late in the day (ie, late 1990s, in some cases when already on the brink of failure) that the banks began to make serious efforts to undertake asset and liability management.

Many commentators have attributed directors' and managers' failure to establish accountabilities and controls to manage new areas of business risk to their lack of knowledge and experience. A number of the indigenous commercial bankers, accustomed as they were to large interest rate spreads and high rates of return, did not have the necessary exposure to risk and financial management techniques to avoid the new risks.⁶⁵ Moreover, unlike their counterparts in foreign-owned banks, they had few, if any, external sources of expertise upon which to call.⁶⁶

Despite these obvious shortcomings in the banks' accountability systems, not all internal control failures and poor decision making in the failed banks can be attributed to management's failure to establish suitable systems of internal accountability and control. It is clear from the field research that Jamaican commercial bankers were not totally remiss in establishing operating accountabilities to aid in the identification, assessment and management of their business risks and to manage their balance sheets. Indeed, by law the banks were required to have put some of these in place. For example, at the time, Jamaica's banking regulation required that they track and ensure adequate levels of cash reserves, liquid assets and loan loss provisions as well as submit to the Bank of Jamaica annual balance sheets and profit and loss statements plus various monthly and annual returns.⁶⁷ A more detailed discussion of the types of financial reports the banks were required to submit to the Bank of Jamaica can be found in chapter nine.

At the very least in order to meet the Bank of Jamaica's statutory reserve and reporting requirements, the banks had put in place basic accounting and management reporting systems, which to varying degrees they had computerised. Using these accounting and management reporting systems, they also generated a number of internal reports to assist in identifying and managing their risks. Taking the identification, assessment and management of credit risk as a specific example, the banks, to varying degrees and levels of effectiveness, were assessing the credit worthiness of borrowers, setting lending limits for staff at different levels, securing loans, tracking past due and non-performing loans and monitoring asset and liability maturities.⁶⁸ Admittedly, however, they were not adequately tracking their guarantees (ie, contingent liabilities such as overdraft facilities and the backing of commercial paper).⁶⁹

Thus it can be seen that despite acknowledged weaknesses in the banks' internal control and risk management procedures the fact remains that they had put some policies, procedures and reporting systems in place. The data collected for this study, however, overwhelmingly suggest that, time and again, bankers in the failed banks were unable to control operations and manage their risks effectively despite the internal accountabilities and controls they had established, even when such controls should have been adequate and were *not* subject to override by managers and employees engaged in sharp or fraudulent practices. For instance, in terms of credit risk management, despite the controls and accountabilities noted above, the banks still failed to manage credit risks associated with their loan portfolios, as indicated by

the high number of non-performing loans they had on their books. This raises the interesting and perplexing question as to why the banks' systems of internal accountability and control were not supporting effective internal control and decision-making? The answer to this question will be sought in the following chapter, which examines empirical evidence linking weak accountability systems and poor record keeping.

Conclusion

The failure of Jamaica's indigenous commercial banks has had a profoundly negative effect on the Jamaican economy and society. For this reason, it is imperative to fully understand all the reasons for the collapse. While macroeconomic instability and a weak regulatory framework have been cited as factors in the banks' collapses, this chapter has argued that, because other foreign-owned banks profited under the same external conditions, the decisions and actions taken by directors and managers of the failed banks must be implicated in the failures. The argument has been made that although sharp practice on the part of a few directors and managers accounts for some of the apparently imprudent decision-making characteristic of the failed banks it cannot account for the sheer pervasiveness of such poor decisions and the operating problems such decisions produced. The chapter pointed to other evidence gathered during the field research which supports the theoretical framework outlined in chapter two suggesting that growth and innovation that gave rise to problems of decentralisation of information processing, decentralisation of information and

decentralisation of incentives led to operating inefficiencies in the failed banks. It was argued that strong systems of internal accountability and control would have mitigated the effects of increasing decentralisation; however, because of lack of management expertise in new areas of business risk, necessary accountabilities and controls were not established. In addition, the chapter argues that the internal operating problems in the failed banks and the poor decisions of the banks' directors and managers was due not only to a management failure to establish accountabilities and controls for new areas of risk but also to a failure of their existing systems of internal accountability and control. The next chapter explores the reasons why these systems were not functioning effectively.

End Notes

¹ The precise year in which the Jamaican financial collapse can be said to have started is a matter of interpretation that depends on the factors that one accepts as having caused the collapse; however, most analysts and commentators agree that the seeds of the collapse were sown long before the first banks failed. For example, see Dennis Boothe, "Case Study of Selected Financial Institutions," Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings. Claremont Kirton and Moya Leiba Barnes date the financial crisis in terms of forced closure, mergers, and government assistance. Using these factors the crisis can be dated from 1995-1998. They note that economists also try to date the crisis by the following: non performing assets to performing assets in the banking system exceeds 10%, that cost of rescue operations was at least 2% of GDP, extensive banking problems that resulted in large scale nationalisations, and large amount of bank runs [see Claremont Kirton and Moya Leiba Barnes, "Financial Sector Crises in the 1990s: Macro and Micro-Economic Roots, Symposium on the Crisis of the Jamaican Financial Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings]. For the sake of simplicity, the study views the collapse of the sector as commencing with the first in a series of bank failures; that is, with the collapse of the Blaise financial institutions in 1995, although it accepts that the roots of the collapse go back much further.

² A review of the audited financial statements of the failed Jamaican commercial banks at time of failure reveals that the capital base of these banks was fairly small in comparison with UK, US or Canadian banks. The banks had a capital base at time of failure of around \$J200-500 million (\$US5-12 million). The largest, National Commercial Bank (NCB), had a capital base of \$J2.15 billion (\$US 50.4 million). All of these banks were highly leveraged with capital/asset ratios far below the required Basle Committee minimum of 8%. Indeed, NCB at time of failure had a capital/asset ratio of only around 1%.

³ Paul Chen Young, *With All Good Intentions: The Collapse of Jamaica's Domestic Financial Sector*. Papers on the Americas Volume IX, Study 12 (Washington, D.C.: Centre for Strategic and International Studies, 1998), 1.

⁴ See Norman Girvan, "Jamaica: An Internal Debt Trap?" Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings and "Domestic Debt Jumps Again," *Financial Gleaner*, 27 October, 2000, 3.

⁵ Paul Chen Young, 1.

⁶ "FINSAC bill nears \$130b," *The Financial Gleaner*, Friday, August 25, 2000, 3.

⁷ "Nation Unites in Protest," *The Gleaner*, Tuesday, April 20, A1-3; "More Mayhem," *The Gleaner*, Wednesday, April 21, 1999, A-1. Demonstrations and protests against fuel price increases were not previously unknown in Jamaica. A number of fuel price hikes in the 1970s and 1985 were met with public outcry and civil disobedience [see Gail Hoad, "Unwelcome déjà vu," *The Gleaner*, Tuesday April 20, 1999, A-3.

⁸ FINSAC, Annual Report, 1998, 8.

⁹ Shelagh Heffernan, *Modern Banking in Theory and Practice* (New York: John Wiley & Sons, 1996), 268.

¹⁰ For a discussion of the impact of Structural Adjustment Programmes and liberalisation on the financial sectors in developing countries, see for example, works by Howard Stein ed., *Deregulation and the Banking Crisis in Nigeria: A Comparative Study* (Basingstoke: MacMillan, 1999). Recently, in its Development Report titled "Attacking Poverty", the World Bank has admitted weaknesses in the conditionality programmes of World Bank adjustment loans [see "World Bank attacks 'deep poverty amid plenty'," *The Gleaner*, Sunday, 15 October, 2000, 9].

¹¹ Omar Davies, "Introductory Statements" Symposium on the Crisis of the Jamaican Financial Services Sector. University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings. See also <http://www.worldbank.org> and <http://www.imf.org> for summaries of assistance provided to Jamaica.

¹² Boothe.

¹³ Greta Bogues, "Origins and Causes of the Banking Crisis," Symposium on the Crisis of the Jamaican Financial Services Sector. University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings.

¹⁴ Bank of Jamaica, Annual Reports, 1987-1997.

¹⁵ Money supply can be defined as the total stock of money in the economy [See Geoffrey Lipscombe and Keith Pond, *Banking: The Business*, 3rd ed (Loughborough: Loughborough University, 1998), 20].

¹⁶ Bank of Jamaica, Annual Report, 1993.

¹⁷ This pattern is not uncommon in developing financial markets according to experienced financial supervisor, Wilbert O. Bascom, who writes: "It is not unusual for serious lending and internal control

deficiencies to be concealed when economic conditions are booming and for credit quality problems to surface when the economy is in a downturn.” See Wilbert O. Bascom, *Bank Management and Supervision in Developing Financial Markets* (London: MacMillan Press Ltd., 1997), 251.

¹⁸ Bank of Jamaica, Annual Reports, 1994 and 1996.

¹⁹ Wilberne Persaud, conversation with the author, Kingston, Jamaica, 10 May, 2001.

²⁰ Bogues. Note that the appreciation of motor vehicles was also due to import control (ie, duties).

²¹ Jeffrey Frankel of the Council of Economic Advisors states that globalisation increases the international effects of domestic financial crises. This is because increased private capital flows, brought about by globalised markets, can transmit and increase a country’s susceptibility to international economic shocks. In addition, volatile private portfolio flows can interact with liberalised banking systems, where exchange and interest rates fluctuate, to increase the likelihood of foreign exchange pressures. Under these conditions, in order to defend the exchange rate, governments must raise interest rates or see a sharp decline in the exchange rate. If the government is unable to raise interest rates, for example because raising interest rates would further erode the quality of banks’ assets, then exchange rates may come under speculative attack. See Jeffrey A. Frankel, “Preventing Banking Crises,” *Preventing Banking Crises: Lessons from Recent Global Bank Failures*, ed. Gerard Caprio et al (Washington, D.C.: The World Bank, 1998): 6-7.

²² Bank of Jamaica, Annual Report, 1994.

²³ Laws of Jamaica, The Banking Law, L.N. 31/1960.

²⁴ Davies. Davies notes that, in the case of the Blaise financial institutions, the Bank of Jamaica knew that something was going wrong but could not pinpoint what it was because the problem would be cured by the time they could check it out. As it turned out the Blaise group of financial institutions was hiding its problem loans by playing a sort of shell game. This entailed sales of loans between entities. The buyer would issue a piece of paper indicating that the loan was good so that the bad loan was not reflected on the books of the other financial entity. Boothe notes that other sharp practices designed to circumvent financial regulations included the issuing of debentures by merchant banks to circumvent reserve requirements. Also, insurance companies created policies with very little insurance attached to them [See Boothe].

²⁵ Laws of Jamaica, The Banking Act, L.N. 17/1992 and The Financial Institutions Act, L.N. 16/1992.

²⁶ Boothe; Laws of Jamaica, The Banking Act, L.N. 42/1995, s. 10.

²⁷ Ibid.

²⁸ Ansord Hewitt, “An Assessment of the Regulatory Framework of the Jamaican Financial Services Sector,” Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author’s transcription of taped proceedings.

²⁹ Wilberne Persaud, “Financial Sector Growth, Innovation and Crises: The Links,” Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author’s transcription of taped proceedings. As of March 2002, the GOJ has passed additional legislation to give the BOJ tighter regulatory powers to delve into the financial operations of any company connected to a deposit taking institution [see “Clamp tightens on Financial Sector,” Wednesday, 20 March, 2002, Online, Internet, www.jamaica-gleaner.com, accessed 20 March, 2002.

³⁰ Boothe.

³¹ Laws of Jamaica, The Banking Act, L.N. 42/1995, s.6.

³² Hewitt. Hewitt contends that the design faults in the 1992 legislation were due to “regulatory capture,” stating that the Act was “hijacked” by senators acting for two of the indigenous commercial banks.

³³ Davies.

³⁴ Claremont Kirton and Moya Leiba-Barnes.

³⁵ Boothe.

³⁶ Hewitt.

³⁷ Bogue.

³⁸ Chen Young, 11.

³⁹ Jason Abrahams, “The Need for Restructuring of the Jamaican Financial Architecture and the Way Forward,” Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author’s transcription of taped proceedings.

⁴⁰ Abrahams.

⁴¹ Laws of Jamaica, The Banking (Amendment) Act, L.N.26/1997, s. 10.

⁴² Laws of Jamaica, The Banking (Amendment) Act, L.N. 26/1997, s.15.

⁴³ Persaud.

⁴⁴ Davies.

⁴⁵ Subject E-2, personal interview, Bridgetown, Barbados, 17 November, 1999.

⁴⁶ Ibid.

⁴⁷ I am indebted to Dr. Wilberne Persaud, of the University of the West Indies’ Department of Economics, for pointing this line of argument out to me. The figures for the number of branches are derived from each bank’s 1998 annual report and financial statements.

⁴⁸ See for example, interviews with subject C-2, personal interview, Kingston, Jamaica, 29 September, 1999, subjects C-5 and C-6, personal interview, Kingston, Jamaica, 5 October, 1999 and subject C-7, personal interview, Kingston, Jamaica, 6 October, 1999.

⁴⁹ Government of Jamaica, Ministry of Finance and Planning, “Public Sector Response to the Problems of the Financial Sector,” Ministry Paper No. 13/98, 8 April, 1999.

⁵⁰ Subject F-2, personal interview, Kingston, Jamaica, 30 August, 2001.

⁵¹ “BOJ Governor Keynote Speaker at JIOB Awards Luncheon,” *JIOB News* (May 1999): 1+.

⁵² Government of Jamaica, Ministry of Finance and Planning, "Public Sector Response to the Problems of the Financial Sector," Ministry Paper No. 13/98, 8 April, 1999.

⁵³ Subject A-5, personal interview, Kingston, Jamaica, 1 June, 1999. This subject stated that "[I] would say that again there is an issue of crisis recognition, of people feeling that they could delay things or work it through somehow . . ."

⁵⁴ Changes in the Financial System Structure: 1961-1999 (Total Assets, Deposits, Loans in J\$ millions, figures as of December 31, 2000)

	1961	1971	1981	1990	1995	1996	1999
Commercial banks							
Number of banks	6	6	8	11	11	9	6
Number of branches	69	131	179	170	205	188	129
Assets	--	517	2,634	17,328	121,325	135,996	192,843
Deposits	406	2,103	12,098	89,135	94,103	126,814	
Loans	330	1,495	8,997	45,864	54,563	36,719	
Merchant banks							
Number of institutions	3	6	21	25	23	13	
Assets	12	93	4,527	17,334	19,778	10,079	
Deposits	2	35	2,843	6,868	6,760	4,545	
Loans	--	10	38	2,863	6,024	7,349	2,704
Trust companies							
Number of institutions	2	6	10	3	--	--	--
Assets	--	24	163	109			
Deposits	14	126	86				
Loans	--	14	104	75	--	--	--
Building societies							
Number of institutions	7	16	7	6	32	14	5
Assets	17	57	388	3,058	29,084	35,926	40,412
Savings funds	14	53	367	2,667	25,217	28,765	32,577
Loans	14	46	271	1,596	9,714	15,570	14,709
Credit unions							
Number of institutions	110	127	96	80	82	77	66
Savings	2	10	185	694	3,516	4,681	9,436
Loans	1	9	184	652	2,831	3,652	6,680
Finance houses							
Number of institutions	--	--	10	5	4	4	2
Assets	59	266	639	530	724		
Savings funds	47	157	210	236	393	--	--
Loans	--	--	33	168	206	185	205

Source: Bank of Jamaica

⁵⁵ Hewitt and Davies *passim*.

⁵⁶ Persaud.

⁵⁷ Government of Jamaica, Ministry of Finance, "Public Sector Response to the Problems in the Financial Sector," Ministry Paper No. 13/98, 8 April, 1998; Bank of Jamaica, Annual Reports, 1987-1997.

⁵⁸ Subject A-12, personal interview, Kingston, Jamaica, 6 July, 1999.

⁵⁹ Ibid.

⁶⁰ “BOJ Governor Keynote Speaker at JIOB Awards Luncheon.”

⁶¹ Government of Jamaica, Ministry of Finance and Planning, “Public Sector Response to the Problems of the Financial Sector,” Ministry Paper No. 13/98, 8 April, 1999.

⁶² Subject E-2, personal interview, location confidential, 17 November, 1999.

⁶³ This conclusion is based on the researcher’s assessment of the bank after conducting interviews and conducting on-site examinations.

⁶⁴ This refers to the Trafalgar Commercial Bank.

⁶⁵ Government of Jamaica, Ministry of Finance and Planning, “Public Sector Response to the Problems of the Financial Sector,” Ministry Paper No. 13/98, 8 April, 1998.

⁶⁶ For example, interview subject B-3 points out that indigenous banks did not anticipate drastic shifts in exchange rates in dealing with foreign exchange risks and interview subject E-3 notes that management’s understanding of risks in the failed banks was flawed. Subject B-3, personal interview, Kingston, Jamaica, 25 June, 1999 and subject E-3, personal interview, Bridgetown, Barbados, 19 November, 1999.

⁶⁷ Laws of Jamaica, The Banking Act, L.N. 42/1995, s. 16.

⁶⁸ This is based on an analysis of the kinds of reports covered under the retention schedules for the failed banks. These reports provide evidence of the kinds of risk management and analysis carried out by the banks.

⁶⁹ Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999; Subject A-16, personal interview, Kingston, Jamaica, 30 July, 1999; and Subject B-3, personal interview, Kingston, Jamaica, 25 June, 1999.

Chapter Seven: Implicating Poor Record Keeping in the Failure of Jamaica's Indigenous Commercial Banks

Introduction

Using data from the field research on the failure of Jamaican commercial banks, the previous chapter provided empirical evidence in support of the theoretical relationship between competitive viability and accountability as discussed in chapter two. This chapter seeks to provide empirical evidence of the relationship between accountability and record keeping as posited in chapter three and to illustrate the effects that poor record keeping can have on accountability and competitive viability. Thus, following on from the argument in the previous chapter that weak systems of internal accountability and control contributed to the internal control problems and poor decision-making that characterised the failed banks, this chapter contends that, in addition to more generally recognised weaknesses in the banks' accountability systems, the absence of adequate information to support the effective operation of the failed banks' established internal accountabilities and controls – the fault of poor record keeping -

contributed to the poor decision-making and operational problems experienced by the banks.

The chapter begins with a brief overview of some of the factors contributing to weaknesses in the banks' internal control systems. It then goes on to focus on poor communication of business rules and the absence of trustworthy and timely accounting and management information, resulting from the banks' record creation and keeping practices, as factors contributing to poor decision-making and operational problems.

Accounting for Weaknesses in the Failed Banks' Internal Accountability and Control Systems

A useful place to begin exploring the factors contributing to weaknesses in the collapsed banks' systems of accountability and control is with a review of the Basle Committee framework for the evaluation of internal control systems discussed in chapter five. This framework defines the characteristics of an "ideal" internal accountability and control system and thus offers a point of comparison with the internal accountability and control systems found in the failed Jamaican commercial banks. To reiterate, the Basle Committee framework calls for internal control systems with sufficient management oversight and control; the proper assessment of risks; the establishment of various control activities to manage risks; effective information and communication; and finally proper monitoring of, adherence to, and efficacy of internal controls.

Unquestionably, the field research data indicates that the failed banks' internal control and accountability systems had several weaknesses when compared with the Basle Committee framework. Evidence suggests that, in a number of instances, the banks' directors and managers, some of whom were engaged in sharp practice, failed to set a tone of high ethical standards and integrity, which would have been needed to encourage and support a sound control culture.¹ As such, in some cases, management overrode existing internal accountabilities and controls, which had the effect of undermining the efficacy of the banks' accountability and control systems.² Furthermore, as already mentioned, bankers in the failed banks did not identify or understand all of the areas of risk that they faced in their existing operating environment and therefore failed to take adequate steps to address these risks.³ Management also failed to establish sufficient means of monitoring adherence to and effectiveness of internal controls and accountabilities, as evidenced by weaknesses in the internal audit function.⁴

While there is clear evidence to indicate that all of the above factors undermined the banks' internal accountability and control systems, this chapter examines another element of the framework that is critical to the effectiveness of such systems: information and communication. As noted in the Basle Committee framework, quality information and communication are essential foundations of the other interconnected elements of internal accountability and control systems. Though the field research conducted for this study has revealed that the quality of information and communication in the failed banks was poor, in the public debate surrounding the collapse of the failed Jamaican commercial banks this problem has received little recognition as an important factor contributing to weaknesses in

the banks' internal accountability and control systems.⁵ Where the absence or quality of information and communication has been identified as a problem, the focus of the discussion has been limited to the need for inter-bank exchange of information about customers' credit history in order to support better credit risk analysis.⁶

In contrast to the relative silence in the public debate about information and communication as a factor contributing to weaknesses in the failed banks' internal accountability and control systems, FINSAC officials and consultants closely involved in intervention into and rehabilitation of the failed banks quickly identified poor quality information and communication as a significant problem in the failed financial institutions. Consequently, they have spent a great deal of time and resources on improving accounting and management information systems as a major part of their effort to improve internal control and decision making in these institutions.⁷

This chapter advances the argument that practices with respect to the creation and keeping of records undermined the quality and communication of information in the banks. As a result, directors and managers often were unable to obtain an accurate assessment of their financial positions as the basis of good decision-making, adequately assess their risks, and maintain proper control of operations throughout their organisations. The discussion focuses first on records needed to establish the structure of internal control and accountability systems and to communicate standards and procedures of operation and then goes on to discuss the creation, communication and keeping of records needed to support the giving

and holding to account. As each aspect of a system of internal accountability and control is dependent on another, this chapter also aims to reveal how weaknesses in the banks' information and communication interrelated with and undermined other aspects of their accountability and internal control systems. Finally, the chapter aims to show the impact of poor information and communication on the failed Jamaican commercial banks' decision-making and operations.

Weaknesses in the Creation and Keeping of Constitutive Records

Chapter three discussed the ways in which certain types of records serve as a means of establishing the structures and procedures of accountability systems. Policies, procedures, directives, strategies, organisation charts and job descriptions are all types of documents that organisations use to set out the structure and mode of operation of their internal control systems. In addition, these types of documents serve as instruments in the process of holding organisational actors to account in that they stipulate the performance standards intended to both constrain and measure the actions and decisions of these actors. Since the lines often are blurred between the dual constitutive and instrumental purposes that policies, procedures and similar documents serve in relation to the operation of organisational systems of accountability both aspects of such documentary forms will be dealt with in this discussion of their role in the failure of the Jamaican commercial banks' internal accountability and control systems.

The Basle Committee framework, in its discussion of directors' and senior managers' responsibility for governance, guidance and oversight, highlights the importance of policies, procedures, directives and similar records in "setting the broad strategies and major policies of the organisation and approving the overall organisational structure."⁸ In particular the framework emphasises the importance of "operational procedures [that] are contained in clearly written documentation that is made available to all relevant personnel" for the purposes of establishing a strong control culture in which "every employee [is aware] of the need to carry out their responsibilities effectively and to communicate to the appropriate level of management any problems in operations, instances of non-compliance with the code of conduct, or other policy violations or illegal actions noticed" and to establish "an appropriate control structure . . . defining the control activities at every business level."⁹

In a similar vein, the Bank of Jamaica's standards of best practice, issued in 1995-1996, call for the establishment of policies for each area of risk management and control as part of a bank's internal control system. These written policies, according to the standards, provide the necessary guidance to individuals responsible for the institution's policies, procedures and controls and assist in ensuring that the controls used are authorised, adequate and current.¹⁰

In contrast to the ideal internal control system described in the Basle Committee framework and the Bank of Jamaica best practices guidelines, in many cases the failed banks did not develop and implement clearly defined business rules,

formally established and in writing, to set out control activities with respect to various risk areas. In the words of one interview subject:

. . . when I saw the decline in the financial sector in the past two years that was the problem, you know. These guys had no system, they had no procedures, I mean credit analysis, I mean basic things to a bank, it was on a very haphazard fashion. I do this, you do that. Do we coordinate? Maybe we do. Do we have a pattern? Does the information flow to a certain point, is it documented, is it kept, is it reviewed, is it audited? That was the missing thing from the banks that failed.¹¹

This subject's views are supported by the views of Wilberne Persaud, Professor of Economics at the University of the West Indies, who has commented that the banks that failed did not clearly delineate their rules of operation, whereas those that remained viable had well-established rule books.¹²

An interview subject from a viable bank commented on the problems banks face when business rules are not well documented:

If we didn't have the policies in place, first thing we wouldn't even have an organisation because you have to have some level of consistencies in the way you deal with customers and the way you deal with systems. If you don't have, the whole thing is gonna fall . . . apart, basically. One thing you don't want to do which I think is what has happened in the local market is to start dealing with people on a differential basis. In other words, I am manager; you come to the bank as a customer I waive this for you. I deal with this documentation differently because I know you, type of thing. I accept this form of documentation because of who you are and so on. That's the one thing you don't want to do in a bank. Once you start to do that you open yourself up to risk because there is no similarity in the procedures anymore. The next person comes in you say okay I will waive this. Why don't you use this piece of documentation. You have to have a straight system. So if you don't have something documented, something that is thought through, something that is tried and been tested, you are bound to then run into problems with how you are managing your business down the road, you know. It's just got to come back to haunt you at some point in time and check from just checks and balances situation. How do you check yourself? How do you know that you are in fact on the right page all the time. You do that because you have a framework to check yourself against. So the framework is very important and this is why a lot of banks ran into trouble because they

had no framework to check themselves. It was well I know [name of person], she is good for it let me do this. That can't work.

In the absence of clear, well-documented, current and accessible policies, procedures and directives, accountability in all areas of the banks' operations was difficult to achieve. This situation fuelled a weak internal control environment. Employees apparently experienced confusion about the need for and how to carry out different control activities, resulting in loss of control over bank operations.¹³ In addition, problems with the documentation of business rules in the failed banks made it impossible for directors and senior managers to determine if employees were abiding by established policy and to prove any wrong-doing in cases where employees had deviated from acceptable practice.¹⁴ This situation promulgated an environment in which fraudulent activities could flourish.

The field research clearly shows that an absence of written business rules contributed to the internal operating problems experienced by the banks that failed and was linked to their internal control problems.¹⁵ Even when such documents did exist, however, performance standards were not being followed.

Commentators typically have pointed to weak management oversight and control coupled with a weak audit function in the failed banks to explain why even documented performance standards were not properly implemented.¹⁶ While there is certainly evidence to suggest that this was the case, it assumes that employees were sufficiently aware of and briefed on existing policies and overlooks the failure to communicate policies effectively as a factor that prevented their proper implementation.

Evidence collected for this study nevertheless suggests that weak compliance with internal operating rules and standards of performance in the failed banks also was linked to problems with how rules and standards of performance were managed and communicated. In commenting on the communication and management of the banks' written business rules one interview subject made the following comment about the problems encountered:

In some cases they were there but you had to look for [them]. In that, although there is a procedures manual, a document that states how they should operate, you find that there are several amendments and these amendments are given in the form of a memo. [They] do not necessarily . . . hit the manual but [are] in a separate file. So the information is kind of sketchy in some cases. Where [there] is an issue you have to run the light to some extent on the people involved in the process.¹⁷

Another interview subject commented that:

. . . somebody coming into the organisation would take up the policy manual and would certainly, when you look at it, you would realise that it is five years behind but the [amendments are] somewhere around in the organisation which you cannot find.¹⁸

Policies, procedures and directives did not flow as they should have to those responsible for their implementation. Nor were they regularly reviewed to ensure their continuing relevance.¹⁹ As a result, informal and predominantly oral "the way we do it around here" practices prevailed with resultant ambiguity about organisational standards of performance.

Problems with the communication and management of policies, procedures and directives can be linked to the fact that the failed banks were not systematically managing the creation, review, distribution and filing of these documents. In other words, problems arose from weak management of the record creation and keeping processes. Each operational area was separately responsible for codifying

policies, procedures and directives relating to the functions it performed.

However, in the absence of a central coordinating unit with responsibility for the management of the organisation's codified business rules there was no way of ensuring that operating units codified consistently and regularly, and that they systematically reviewed existing documentation to incorporate changes necessary to correct operating problems or address new product innovations.²⁰

Furthermore, the site investigations revealed that the banks had no single unit responsible for compiling all policies to maintain an official current version of the various policy manuals as well as an historical record of superseded policies in the event that questions arose about past decisions based on earlier rules. Nor was there a single distribution list to ensure that all relevant persons received new versions or that new employees received important information about business rules and operating standards. Moreover, no clear procedures existed for updating policy manuals when amendments were issued, with the result that manuals became outdated and new policies, procedures and directives were difficult to find. In many cases, individuals continued to work in accordance with outdated business practice.²¹

As the banks grew in size and came to have more complex organisational structures, lack of control over the management of their written business rules and operating standards became more pronounced and detrimental to operations.²²

There were more units creating policies and procedures and an increasing number of staff to whom these documents had to be distributed. In the absence of any coordination over the development and communication of documented business

rules and performance standards, the banks' documentation of policies, procedures and directives became more erratic and uncontrolled. Moreover, growth and product innovation also created a need for rapid revision of existing policies so that version control in this increasingly complex environment would have been of increasing importance. As there was little to no formal control over various versions of policy and procedural documentation, personnel were unaware of operational standards and requirements, and management was unable to hold staff to account in order to enforce compliance with operating standards.²³

In comparison, in one of the viable banks included in the field research sample, the creation, communication and keeping of the bank's policy and procedural documentation was highly controlled and systematically managed. The bank had developed an intranet-based centralised storage system for its policies and procedures, which it updated on a monthly basis. Management had organised training courses for bank staff aimed at providing information about how to access the system to encourage its use. In addition, systems had been put in place to ensure that all employees were notified of policy and procedural changes; for example, management held regular meetings with staff to update them on amendments and sent out announcements about policy and procedural changes via electronic mail.²⁴ As a result, this bank did not suffer from the same degree of ambiguity in the structure of its internal accountability and control systems and communication of its business rules as in the case of the failed Jamaican commercial banks. Not surprisingly, its internal accountability and control systems were much stronger.

Weaknesses in the Creation and Keeping of Instrumental Records

Effective operation of formal internal systems of accountability and control rely not only on communication of the structure of the system and operational performance standards but also on timely communication of trustworthy accounts of decisions and actions taken by accountable persons as the basis by which their decisions and actions are judged by those to whom they are accountable (eg, managers and directors). Timely and trustworthy accounts provide the basis for maintaining internal control by providing the information needed to monitor compliance with operating standards and performance targets as well as providing directors and managers with information needed to make sound decisions relating to the assessment and management of risks and the determination of appropriate business strategy.

Basle Committee framework Principle 8 specifies that senior management must ensure that there are adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision-making. The Committee states that such information should be “reliable, timely, accessible, and provided in a consistent format.”²⁵ In addition, the framework specifies that internal information should be part of a record keeping process that includes established procedures for records retention. Principle 10 establishes that senior management must put in place appropriate management information systems covering all activities of the bank. These systems, including those that use and hold data in electronic form,

must be secure and periodically tested. The framework acknowledges that data in electronic form and computerised information systems also have risks that must be controlled.²⁶

Echoing the Basle Committee framework, the Bank of Jamaica's standards of best practice include a requirement for management information systems to provide quality information at all levels within the institution to assist in making informed business decisions, to facilitate the effective management and control of the institution's operations and to facilitate external reporting. Moreover, the standards document calls for the establishment and maintenance of sufficient appropriate controls over the accounting and other record keeping processes of institutions. Finally, the Bank of Jamaica document states that information technology controls are an important part of banks' internal control systems as is the management of risk associated with loss of data or disruption of information systems.²⁷

Evidence gathered from four of the six failed Jamaican commercial banks reveals that accounting and management information was not available or of sufficient quality to support effective operation of their internal accountability and control systems. For example, several subjects interviewed for this study expressed frustration with the fact that information needed to monitor the banks' liquidity, deposit base, asset quality and loan loss provisions was not accessible on a timely basis or as far back as necessary for the purposes of trend analysis, and in some cases not available at all.²⁸

It is worth noting at this point that interview subjects frequently identified these accounting and management information related problems as being due to poor “management information systems.” As discussed in chapter three in relation to the meaning ascribed to records, what a given term signifies can differ dramatically depending on the context of its usage. Typical theoretical definitions of management information systems, for example, associate the term with computer-based systems, as in the following definition:

. . . a computer-based system that makes information available to users with similar needs. The users usually compose a formal organizational entity - the firm or subsidiary subunit. The information describes the firm or one of its major systems in terms of what has happened in the past, what is happening now, and what is likely to happen in the future. The information is made available in the form of periodic reports, special reports, and outputs of mathematical simulations. The information output is used by both managers and nonmanagers in the firm as they make decisions to solve problems.²⁹

Subjects’ use of this terminology, however, indicates that they all had very different ideas about what management information systems actually comprise. It also suggests that the banks’ information related problems went much deeper than what, by the definition cited above, can be described as “management information.” For example, some interview subjects used the term to refer to the banks’ transaction processing and core accounting systems.³⁰ Others used it to refer to the reporting functionality of information systems (whether computerised or manual) that supported management review and decision-making in the context of hierarchical organisational structures.³¹ Still others used the term quite liberally to refer to all computerised information systems in the banks.³² In many cases, interview subjects’ used the term management information systems, therefore, to encompass what, for the purpose of this study, are identified in chapter three as records, including types of documents typically identified in the accounting

literature as source documents, accounts, and management and financial accounting reports.

Despite the different meanings that subjects ascribed to the term management information systems, they all pointed out pervasive problems in accessing trustworthy accounting and management information on a timely basis for the purpose of management and financial accounting and accountability. In the words of one interview subject:

I would have to say that one of the big problems that faced Jamaica is the management information systems . . . were absolutely atrocious; nobody could get anything out of them and if I was a manager I would not have a clue as to what was going on in my bank . . . ³³

Lack of trustworthy accounting and management information contributed to problems that had serious repercussions for the banks. Without timely and accurate information, bankers had no way of accurately determining their bank's financial position, assessing the quality of their asset portfolio, making adequate provisions against loss, preventing mismatches between assets and liabilities, managing their cash flow, keeping down the costs of their funds, and maintaining adequate levels of capital to support their operations. Here, it is appropriate to reiterate that many bankers did not undertake these important management functions out of either self-interest or ignorance; nevertheless, even when they sought to perform such functions, lack of appropriate information prevented them from doing so effectively. The banks' failure to perform these critical functions effectively, or even at all in some cases, in combination with market conditions at the time, resulted in a number of "life threatening" problems. For example, a rising number of non-performing assets funded by short-term liabilities led to

liquidity problems. The banks' profitability further declined as overhead expenses increased from losses due to fraud and the banks' inability to manage their cash flow effectively, which led to penalties for failing to adhere to statutory deposit ratios that again increased costs of operation. All of these factors taken together spelled disaster for these commercial banks.

Interview subjects and commentators have tended to identify three main reasons to explain why the banks' information and communication was inadequate. One of the reasons traces back to the argument, discussed in the previous chapter, that the banks' managers were not experienced enough in new areas of risk to be aware of the need to track certain types of transactions. In other words, they failed to account for and, by extension, establish accountability for these transactions. While the research conducted for this study supports the contention that managers failed to establish systems to prudently track and account for all aspects of their banks' business, it still does not explain why accounting information coming from well-established accounting and management information systems was of such poor quality.

Another theory that some commentators have advanced to explain why the banks' financial information and reporting was unreliable was that their accounting practices were suspect. In a paper presented at the Jamaican Institute of Bankers 1998 Awards Luncheon, the Governor of the Bank of Jamaica cited creative accounting, particularly in respect of asset valuation and income recognition, as contributing to unreliability of the banks' financial information.³⁴ Similarly, at a recent symposium on the collapse of the Jamaican financial sector, financial

analyst Jason Abrahams pointed to the “liberal” interpretation of accounting rules employed by some Jamaican bankers as a factor in the collapse.³⁵ While there is little question that the failed Jamaican commercial banks did play fast and loose with accounting rules and therefore produced some questionable financial reporting, this problem better explains why those external to the banks - shareholders, auditors, regulators and customers - were unable to obtain a clear picture of the banks’ financial positions and risk exposures than it explains why the banks’ own directors, managers and employees could not access reliable recorded information. Moreover, it is not helpful in discovering why even disaggregated financial information (eg, source documentation for financial transactions) was missing or unreliable, as was the case in the four failed banks. Nor does it offer a basis for understanding why non-financial recorded information was inadequate and unavailable. Thus, other explanations must be sought.

Another of the reasons given to explain the poor quality of accounting and management information is that the banks’ transactions were not sufficiently computerised. Proponents of this theory argue that greater use of computers would have resulted in better quality accounting records and management reporting.³⁶ It is certainly true that many of the banks still handled transaction processing and accounting manually and that, in the case of those processes that were automated, the banks’ computerised systems had inadequacies, such as poor communications interfaces that caused system-generated accounting errors.³⁷ Nevertheless, the field research indicates that problems in the production of trustworthy and timely accounts cannot be attributed solely to lack of

computerisation or weaknesses in how the banks' transaction processing and core accounting systems functioned because, as will be discussed in more detail below, many of the problems arose from the absence of or poor quality source documentation. Thus, an understanding of the banks' information related problems, and by extension solutions to those problems, are not necessarily to be found only with computerisation.

None of these reasons should be discounted completely as causes of weaknesses in accounting and management information supporting the failed banks' internal accountability and control systems, since there is evidence to suggest that all contributed to the poor quality of information in the failed banks. In and of themselves, however, these cannot fully explain the banks' information and communication related problems. The field research data point to many other contributing factors having to do with the way in which the banks created and kept their accounting records. To fully understand the sources of weaknesses in the quality of the banks' accounting and management information and how these weaknesses affected internal control, risk management, evaluation of financial positions and the prevention of fraud in the banks, it is therefore essential to explore in detail how the banks produced their accounts. The following discussion presents a high-level overview of the account production process, beginning with a discussion of the banks' core business functions and touching upon three different types of records involved in the production of the banks' accounting and management information – source documentation, accounting records and financial and management reports.

In looking at how records were interpreted and re-interpreted to produce particular views of the banks financial positions and risks it would have been revealing to have been able to trace the processes of inscription, transmission and contextualization for a single document or group of documents involved in a single transaction. This type of approach is usually associated with an internal audit methodology, which is based on detailed sampling of certain transactions.³⁸ However, given the limitations imposed by cultures of bank secrecy, the need for confidentiality in regard to pending litigation, and the impossibility of gathering data related to specific documents and transactions from ethnographic interview subjects, the researcher was unable to use an audit methodology and the discussion in chapters seven and eight is, of necessity, focused at a more systemic level of analysis. This level of analysis is broadly consistent with the archivist's usual methodological approach, which tends to focus more broadly on systematic issues.³⁹

The banks handled a wide range of financial transactions on behalf of a variety of parties. These included processing of transactions for both customers and non-customers conducted at ATM machines (in two of the failed banks only) and transactions on behalf of customers conducted at branches or processed through the branch network. The majority of transactions in the branches resulted from the banks' core functions of deposit taking and lending. However, with the structural reforms that took place in the 1990s in the Jamaican financial sector, banks also became licensed foreign exchange dealers and traders and so consequently handled a number of transactions involving the buying and selling of foreign exchange. In addition, the banks purchased funds and made investments

to support their other activities. As such, the banks' main business transactions included:

- Opening and administering various deposit accounts on behalf of customers (eg, current, savings, and time deposits)
- Processing of cash and cheque deposits to and withdrawals from those accounts
- Granting, disbursing, servicing and collecting credit, such as loans, overdraft facilities and guarantees (ie, of commercial paper for corporate clients)
- Selling and purchasing foreign exchange
- Purchasing funds and investing

In addition to their core functions, as noted earlier, throughout the period of the Jamaican financial crisis, the banks also increasingly became involved in non-core functions such as art collection and, indirectly through their lending activities and investments, real estate development and other types of business enterprises in which the banks had little management expertise. Although their involvement in these non-core activities contributed to the problems that eventually led to their failure, the focus of this discussion will be on the production of accounting records and management accounting information relating to the banks' core functions for the reason that the field research yielded a preponderance of data related to these areas. Despite the focus of the discussion on accounting records and management accounting information relating to the banks' core functions, the field research suggests that similar conclusions can be reached about the general quality and effect on accountability and accounting records related to non-core functions.

The process of accounting for the banks' core financial transactions, and thus the accountability for those transactions, began with the creation or receipt of records documenting each financial transaction. As discussed in chapter three, these records typically are referred to in the accounting literature as source documentation. The banks created and received many different types of paper source documents in the process of opening various types of deposit accounts.⁴⁰ These included application forms, agreements regarding the operation of the account, copies of customer identification, deposit slips and signature cards. Other relevant records were received from the customer, such as letters of reference in the case of personal accounts or copies of certificates of incorporation, memoranda of association and articles of association in the case of corporate accounts. Such documents generally were placed in customer account files. The banks also generated signature cards that were kept separately in card files.⁴¹ In addition, at least one bank kept a customer account history card file, while in another of the banks this information was saved in a computer file.⁴² Throughout the operation of the account, the banks filed records related to the history of the account on the customer's account file, which generally was retained in the customer's branch. Examples of the type of documents placed on the file include letters concerning the printing and dispatch of cheques; stop payment orders; copies of statements; letters concerning lost or stolen cheques, drafts or passbooks; and letters concerning the use of facsimile signatures.

Several subjects spoke of problems with incomplete and inaccurate customer records, particularly those on computer. As one interview subject explained, because the customer information files were incomplete and customer

documentation inaccurate, branch staff making credit decisions did not have access to important information about customers' credit history:

So you would . . . So you would have a ----- they would put ---- at a certain address and ----- account. I would then quite easily go to another branch or even the same branch and try to open up a same account and they would never track that I had already had an account with that branch. They would open up another account and sometimes they would not even fill out an address or anything. So I could quite easily have a huge overdraft or non-performing input in one account and have some balances of funds in another account and walk out with that.⁴³

The method of filing customer documentation also contributed to lack of access to important information about customers. Though it might be expected that all documentation related to a single customer would be grouped together and placed on a file relating only to that customer, the field research revealed that this was not necessarily the way in which customer documentation was organised. In one of the branches visited, customer documentation was simply placed on files organised in chronological order. Thus, retrieval of information related to a particular customer was difficult if not impossible. Inadequate control over and organisation of customer records, coupled with the absence of a credit bureau that would have facilitated the exchange of credit information among Jamaican banks, left the banks open to abuses that, in turn, exposed them to increased risk of fraud, credit risk and, ultimately, to losses.⁴⁴

On the credit side, the granting of a credit facility, for example a loan, overdraft or guarantee, generated such documents as credit applications, credit assessments, correspondence related to the credit facility and, for corporate loans, notes on site visits and annual reports. The banks created and maintained credit files into which they placed documents relating to the opening of the credit facility. In

addition, most of the banks' credit was secured so they also created and kept securities documentation concerning collateral on credit. This documentation varied depending on the nature of the credit but included such items as debentures, mortgages, certificates of title, bills of sale, insurance, loan agreements, promissory notes, and exchange control approval (in the case of foreign currency credit only). The banks kept these documents in separate securities files that they generally stored in a safe area such as a branch vault. As with the deposit account files, throughout the operation of the credit facility any documentation relating to the customer's credit account was to be placed on the appropriate credit or securities file.

A number of interview subjects noted that an extremely high percentage of the banks' securities and credit files were missing key documentation or contained documentation that was incomplete.⁴⁵ In 1999, even one of the failed banks with a comparatively well-managed system for its securities files could claim documentation was complete on only up to 70 percent of these files.⁴⁶ So poor was the failed banks' record keeping that, in response to concern about the public release of individuals' financial details as a result of the banking crisis, Jamaica's Minister of Finance was prompted to remark of two of the banks that "Having seen the way that records were kept . . . I have no doubt that they'd lose, if not all, at least most of the pieces of information."⁴⁷

Missing credit and securities records contributed to the problems the banks (and subsequently FINSAC) experienced with effectively monitoring the credit-worthiness of their customers and collecting on loans that had become non-

performing. In the end, the high number of non-performing loans on which the banks could not collect had to be written off thereby weakening the banks' capital adequacy and contributing to their downward spiral.

In addition, the banks made a number of guarantees, such as approving overdraft facilities, issuing letters of credit, and backing commercial paper. Often bank guarantees were made at the officer level and not reported, secured or documented in the bank's official records.⁴⁸ The failure to document guarantees opened the banks up to a source of credit risk that, because undocumented and unreported, could not be assessed and managed properly.

Documentation was also poor in relation to other areas of the failed banks' activities. In the investment area, inadequacies in recording financial transactions led to financial losses. In a single case alone, the inability to validate an investment led to a J\$100 million (US\$2.3 million) loss for one of the failed banks.⁴⁹ In another bank, an internal audit report noted that failure to properly record transactions in the treasury and foreign exchange trading operations resulted in fraud, late or non-booking of transactions, default under contractual obligations and exchange losses.⁵⁰

The banks processed numerous financial transactions on a daily basis with respect to their deposit and credit accounts. These included cash and cheque deposits and withdrawals, and credit disbursements or payments on loan accounts. Each transaction generated records, for example: deposit slips, savings account withdrawal vouchers, internal vouchers, cheques and other types of source

documents. Depending on the type of transaction and the way in which a particular bank structured its transaction processing, branch and/or central processing unit employees recorded each transaction in various manual or computerised systems. The field research uncovered three separate problems associated with the processing of transactions.

First, source documents often were missing, inaccurate or incomplete with obvious consequences for the reliability of the information entered into the bank's transaction processing systems. For example, incomplete vouchers often led to errors in recording and tracking inter-company transactions.⁵¹ Such transactions essentially remained invisible for accounting and accountability purposes.

All banks were microfilming cancelled cheques and, to varying degrees, other types of source documents. In terms of the cheques, the banks microfilmed both those drawn on other banks which they received in the branches and forwarded via the Bank of Jamaica, the central clearing agency, back to the originating bank ("out-clearings") and those of their own bank received via the Bank of Jamaica from other banks to be processed and then forwarded to customers with their bank statements ("in-clearings"). Microfilming of cheques was important as, after the cheque left the bank, the microfilm copy constituted the only record of the cheque. Unfortunately, the banks' microfilming practices contributed to records retrieval problems. Officers often were unable to retrieve microfilmed cheques and other documents because of the poor quality of the microfilm (ie, completely black or blank). Owing to their inability to retrieve microfilmed copies of cheques as

evidence of transactions, in many cases the banks were unable to pursue cases of fraud.⁵²

Third, recording of transactions in the bank's manual or computerised books of account also often was inconsistent, inaccurate and incomplete. For example, loans were issued without being written up or booked (ie, recording the issuance of the loan in the books of account).⁵³ During intervention into the failed banks, FINSAC also found unrecorded liabilities dating from 1993 approaching \$J200 million (\$US5 million).⁵⁴ Due to these inadequacies of the source documentation and original data input into the bank's accounting systems, management reports often were incorrect and misleading. As a result, the banks lacked trustworthy information to identify and manage their financial positions and risks. The underlying reasons for these three problems will be discussed in greater depth in the following chapter.

Each of the banks had computerised their transaction processing to varying degrees. In some cases the item processing systems were standalone while in others they were modules of the banks' core accounting systems. Despite the use of computer systems in the banks, many of the accounting records in the branches still were manual at the time of the bank failures, which, as noted above, is cited as one of the factors contributing to poor accounting and management information in the failed banks.

The oldest of the banks' computerised item processing systems captured information relating to only a limited number of front office transactions, such as

current and savings account deposits and withdrawals. Due to the system's limited functionality, the bank processed other transactions, such as loan payments, manually. As one interview subject explained:

. . . in some cases however you had only a [computerised] system running the front office. The back office was manual. You had a situation where an entity was processing loan cards using a card system and you have a loans clerk going each month and calculating on a calculator and updating a ledger card. So you had systems wherein only the front office where they capture the information on the customer's account, regular savings or current account or a CD account, but there are certain facets like loans that [were] manual . . . ⁵⁵

Thus, obtaining management information relating to a customer's portfolio of services and products or the overall quality of the loan portfolio became more complicated and difficult. One FINSAC official who later had the job of assessing the banks' financial position and risks as part of a due diligence exercise commented on the effects of these hybrid systems as related to obtaining adequate information:

In terms of computerisation of the accounts. I think, I am trying to break this down, in terms of different institutions. Each of them was computerised differently and some one like [name of bank] really had no computerisation, a lot of it was manual. So if you had to get any information out, what would have to happen is that the information request had to go out to each of the branches. They would have collated the information manually - a time-consuming operation - then it would be collated and given to you. . . You are given a sheet of paper with numbers which is inadequate and a lot of people have put an awful lot of time into that. ⁵⁶

Although this hybrid accounting system did generate information of use in tracking the status of the bank's assets, it was not easy to retrieve on a timely basis nor necessarily complete, comprehensive and available in a convenient form.

After entering each financial transaction, the banks posted entries to various accounts in double entry ledgers, for example deposit account ledgers, credit ledgers, and general ledgers. Here again, some of these ledgers were computerised, forming part of the banks' computerised core accounting systems, while others were not. In the case of the computerised ledgers, like the transaction processing systems, the banks' core accounting systems used different software running on a variety of platforms. Two of the banks used IBM AS400-based systems of approximately five years in age. Another used a DOS-based system. Yet another had a system dating from the 1970s running on the now outdated IBM system 36 platform.

In each bank the level and quality of integration between the item processing system and the core accounting system varied. In the bank running the oldest system there was no integration between the two. Transactions in the branches were recorded online; bank officials then had to load these transactions manually into the ledgers in the core system. Diskettes came daily in the afternoon from each branch into the bank's head office for batch posting to the core system. As this was a manual process, it introduced opportunities for errors. Moreover, it presented a problem in terms of the timeliness of information available to head office about the bank's financial position. At best, this information always ran at least a day behind. At worst, when the branches did not finish their work and send in their diskettes, the end of day position could not be determined until the following day, which meant that it was at least two days out of date.⁵⁷ Ultimately, lack of system integration prevented managers and staff in the banks from being able to access trustworthy information about positions and cash flows on a timely

basis. One interview subject commented that, as a result, staff often resorted to handling many transactions by fax and/or phone to obtain information they required to make decisions.⁵⁸ This further contributed to the information woes of the banks, since the information upon which decisions about such transactions was based fell outside the bank's normal information capture process.

One subject described how a recurring communications problem between the item processing and core system in one of the four failed banks affected the bank's ability to gauge the quality of its loan portfolio accurately. This interview subject explained the system integration problem using the following example: A loan is made of \$100,000 and interest of \$20,000 is payable each month between January and July. On the retail side, the item processing system shows the initial loan and the interest payable even though the interest is not being paid. At the end of July, the system reclassifies the loan as non-performing and shows a balance of \$0. It then automatically goes back and wipes out the earlier data on the loan. On the general ledger side of the core accounting system, however, the entry for the loan shows a value of \$180,000 for April, but only \$120,000 for July after the transactions had been wiped out on the retail side and the balances were carried across, as well as a final balance of \$200,000.⁵⁹ This subject pointed out that a manager would have known that the information in the general ledger is wrong, but would have been unable to see that it was as a result of a non-performing loan because of the manner in which the item processing and core accounting systems communicated. Such inaccuracies obviously affected the reliability of information about the bank's financial position and level of credit risk.

Problems with system integration also led to treasury management difficulties, for without accurate information about their daily cash positions the banks were unable to manage their cash flow effectively. As one interviewee said:

. . . what is one of the most important things in a bank? It is cash management, knowing your cash position at any point in time so that you can place funds, get funds because you find that Bank of Jamaica once you are over a certain amount of money they are going to slap a penal rate on you which was significantly high at the time. And it has a ripple effect of course because what happens is it pushes up your cost of funds throughout your system so cash management is one of the absolutely crucial things you must know. It is your pulse. You found that many banks . . . never knew their true cash position until the following day . . .⁶⁰

Lack of timely information on cash positions hampered the banks' efforts to effectively manage statutory cash reserve requirements. Failure to meet these requirements carried expensive fines for the banks and increased operating costs that reduced profitability.⁶¹ However, more importantly, the inability to accurately determine cash positions negatively affected the banks' efforts to manage their liquidity. Shortfalls from such problems as non-performing loans forced the banks to raise funds at market premiums to cover operating expenses and losses and, eventually, to incur large overdrafts with the Bank of Jamaica, which again pushed up the cost of their operations and affected profitability and, eventually, liquidity.

In another of the banks, the accounting system had serious shortcomings in how it presented information, not having been designed with the need to handle accounting for such a high number of non-performing loans. The manner in which the system presented information left the bank with an inaccurate picture of the status of its loan portfolio, which ultimately contributed to liquidity problems.

As one subject explained:

Subject: [I will] speak to the non-performing loans and the way the bookings showed up there. Similar, the standard . . . was 180 days past due. Now it is switched to 90 days, but apart from accounting and regulatory issues that I don't think will be addressed right now . . . it is very easy to evergreen a loan; that is to say, that if you paid \$1.00 of interest then the loan was not considered a non-performing loan even though you owed \$1 billion. They did not have an information system to track a percentage of interest that you had paid in order to track it and say it was non-performing or performing and so, quite frankly, people just paid \$1.00 and it was never deemed non-performing . . . All non-performing loans need to be tracked and given to the Bank of Jamaica (BOJ). You need to set aside provisions accordingly for that, but if it is not considered non-performing then you still account for it as an income statement item and therefore you see the banks having huge profits and yet they are in overdraft position with the BOJ.

Interviewer: So in other words it was . . . on the books as a performing loan which then gave a distorted picture of the total financial position.

Subject: Basically. We have to have clarifications, as it showed up as profit. Now, it was still functioning, and in terms of cash flow you still had the cash flow to service.

Interviewer: So that [is how] we get into some liquidity problems.⁶²

Had the system functioned differently, the bank's management might have detected and taken much earlier action on non-performing loans and, therefore, suffered fewer losses.

In keeping with standard accounting procedures, the banks undertook to balance the double entries in each of their ledgers resulting in the production of trial balances, though admittedly many commentators have suggested that account balancing seems not to have been done with adequate timeliness and regularity.⁶³

Through the process of balancing the accounts, the banks sought to verify the accuracy of their books of account and detect any errors. The correction of account imbalances required bank employees to research individual financial transactions, which often necessitated retrieval and examination of original source

documents, such as vouchers. However, errors often remained uncorrected and thus the banks' accounts remained unreconciled.

Here again, the banks' inability to balance accounts partly stemmed from inadequate record keeping. Retrieval of source documents for the purposes of clearing up transaction entry errors, account imbalances or to conduct reconciliation of accounts was difficult to impossible because of the manner in which the banks kept these records. Many interview subjects commented that retrieval of transaction records, such as deposit slips and vouchers, was difficult. In theory, transaction records were to be retained for a varying period (usually one year) in the branches or data centre. Interview subjects noted that retrieval of transaction records was difficult because records in the branches were disorganised. Out of the four failed Jamaican banks, a structured method of filing had never existed in the two newer banks, while in the two older banks the method of filing had broken down over time as the banks expanded.⁶⁴

After a period of retention in the branches or data centre, source documents generally were to be transferred to the banks' so-called archives for retention to meet ongoing operational needs, such as customer queries on accounts, and legislative retention requirements. In reality, transfers took place erratically, if at all, and the disorder of these records only worsened over time.⁶⁵

Interview subjects noted that disorder of records in secondary storage areas started at the point at which the records were transferred from branches and offices.

Often records were "turned over" and placed in boxes that, for the most part, were

not properly labeled. Poor practices at the point of record transfer to secondary storage resulted in later retrieval difficulties. As one subject commented, “what I found when I went there by looking on the boxes [was] a pile of papers just pulled out of drawers dumped in a box . . . Regardless of what was in the drawer because I found all sorts of things in the boxes, all sorts of personal stuff.”⁶⁶

These boxes were sent to the banks’ “archives,” which were often little more than dumping grounds into which records were thrown in no particular order.

Interview subjects for the study described the state in which one of the banks kept daily transactions vouchers as follows:

. . . we went on this occasion. . . because we needed to get some documents for our lawyers, who had requested some specific files and we went with the lawyers to see how easy it would be to locate these documents. On arrival we saw the door was open and a number of boxes were scattered outside on the steps. We went up the steps and there was one guy at the back leafing through stuff in a box . . . So we actually went there and what we encountered was a room filled with boxes, torn and untorn, all dumped in the middle of the room in no particular order . . . So we had to climb on top of the pile and try and re-arrange the boxes in some sort of order to try and figure out what was what. We also had to compete with the rats.⁶⁷

Another subject described the method of records storage in one of these facilities as being like “how you’d start a bonfire.”⁶⁸ Under these conditions of storage, retrieval of the records for account verification purposes, and therefore the construction of trustworthy and timely accounts, was impeded if not impossible. In terms of the effect that records storage had on the banks’ ability to reconcile their accounts, a 1999 Ministry of Finance and Planning paper stated that FINSAC discovered over 5,000 unreconciled accounts in four of the failed Jamaican commercial banks.⁶⁹ A former director of one of the failed banks attributed the lack of reconciliation of accounts directly to a problem with locating source

documents. While, arguably, part of the problem the failed banks experienced with account reconciliation related to the fact that bank directors and managers did not take steps to ensure that this function was being performed on a timely basis, records related problems were certainly a contributing factor. This director commented that:

We have accounts here that haven't balanced, been reconciled for years. Mainly because they just can't get the source documents. They are nowhere to be found. Either they were lost at the branches, they were not maintained at the branches or in transit they were lost or they were filed somewhere or destroyed. And we have had to write off millions. Literally millions of dollars because we just do not have the information to reconcile accounts.⁷⁰

In 1998 alone the bank had to write off \$J120 million (\$US3 million) because it was unable to complete reconciliation of its accounts.⁷¹ Had the bank's directors and managers ensured that source documents were properly maintained such losses might have been avoided.

In addition to forcing the banks to write off vast sums, their inability to reconcile accounts meant that their accounting and management information lacked integrity. As one subject remarked:

We are going back to the actual data that was in [the core accounting system]. A lot of it was very, very poor and still is very poor. This is what never ceases to amaze me. In terms of [name of bank], you have got so much of it which is unreconciled . . . For instance, if your bank balance is X thousand dollars and you have paid a cheque out, which is in the clearing system for Y dollars or whatever, the cleared funds will not add up to these things. There was actually unrecociliation [sic] between everything . . .⁷²

In many cases the underlying reason for the unreliability of accounting information produced by the banks' core accounting systems was not due to any failure on the part of information technology nor to bank officers' failure to

undertake timely transaction proofing and reconciliation but to an inability to correctly balance accounts and correct accounting errors because of the manner in which paper-based source documents were organised and stored.

Production of the trial balance formed the basis for preparation of the banks' statements of profits and losses and, from this, the balance sheets that showed their liabilities, assets and capital. Together, the profit and loss account and balance sheet comprised the banks' final accounts. Many commentators pointed to the unreliability of the banks' financial reporting, blaming the problem on creative accounting on the part of the banks' directors and managers.⁷³ While there is certainly evidence to suggest that bank directors and managers did engage in creative accounting, the extent to which distortions and inaccuracies in the banks' final accounts are attributable to this kind of manipulation should not be overemphasised. Flaws in the process of producing these accounting reports equally led to a deterioration in the reliability of the banks' accounts. As such, directors and managers often lacked the trustworthy and timely accounting and management information they needed as the basis of maintaining internal control, making sound decisions and meeting regulatory reporting requirements.

In addition to the production of profit and loss accounts and balance sheets, from information in their accounting records, other financial and management reports were needed to assist managers and directors to meet statutory requirements, control operations and manage risks. Some of the reports that the banks did produce included liabilities with other institutions; assets with other institutions;

asset details; currency positions; asset and liability maturities; interest accruals; passed due loans; and non-performing loans.⁷⁴

Production of financial and management accounting reports was problematic in the failed banks, however. Though the accounting information generated in the banks' computer-based core accounting systems was an important source of management information, managers had little hope of using any but the most recent information in analysis for decision-making since "historical" data was either expunged or "archived" onto relatively inaccessible tapes.⁷⁵ One subject described how the inability to access historical management accounting information undermined effective financial and risk management. This subject noted that a particular bank had no historical information on loan loss provisions; the bank could only give a rough figure. He also noted that the banks' interest rate policies were being driven by competitors, not analysis of hard data over time of the impact of interest rates on the bank's own product mix. Thus, information needed for asset and liability management was not available.⁷⁶

Another reason for the poverty of the banks' management information lay in the fact that the banks' computerised information systems lacked report-writing functionality and therefore could not provide managers with useful presentations of accounting data to support management information requirements. As one subject noted:

The other major problem affecting the institutions even ones which were computerised . . . was [that] . . . they had not got significant report-writing functionality within their management reporting tools. They could not get management data readily out.⁷⁷

The difficulty of retrieving management information in meaningful reports from the banks' core accounting systems often discouraged directors and managers from proactively seeking out the information they should have had for financial and risk management. As one interview subject noted, "management suffered with or just put up with what they actually had rather than actually demanding, 'this is the kind of data we wanted'." ⁷⁸ Lack of report writing functionality caused important gaps in management information with serious implications for the banks. As one subject explained:

... if you have a gap there is a great risk because it means that I'm acting on incomplete information because what I have and what I believe is the total fact ... is not so and so my decision will not be as informed as it should be which leads to errors. ⁷⁹

Not only did lack of report writing functionality hamper risk analysis and management decision-making, in one case it also prevented managers from spotting irregularities that would have revealed a credit fraud involving a branch manager who was in collusion with borrowers. ⁸⁰

Reporting limitations of the failed banks' existing systems led managers to create ad hoc management information systems using Excel or other spreadsheet software. While these management information systems facilitated some level of analysis (eg, looking at ratios such as deposit base to what the banks were paying out in interest to determine cost of sales), they did not provide the sophisticated models and simulations that the banks' management would have needed (had they recognised the need) to perform risk management techniques such as value-at-risk (VaR) analysis or to prepare budget projections for different cost centres, products and markets. Where the need for more sophisticated analysis and reporting was

identified, want of proper management information systems limited management's ability to undertake financial and risk management with any degree of sophistication, which ultimately reduced the banks' ability to maintain competitive viability.

Moreover, as these systems were ad hoc creations, their credibility was highly suspect. There were no controls over the input and output of information from them, no controls to ensure that they produced consistent and reliable results, and no controls over system security and backup. As stand alone creations, these ad hoc systems became "islands of technology" only available to the single user or group of users responsible for their creation, although the information they contained may have been of benefit to the decision-making processes of others.

Conclusion

Sound risk and financial management is essential to the competitive viability of any banking operation and is, in turn, dependent upon proper accountabilities and controls to identify and manage areas of risk and set appropriate business strategy. Accountability, as a primary mechanism for achieving internal control and sound decision-making, is therefore vital to the continuing viability of banking operations. As the field research for this study has revealed, the failed Jamaican commercial banks' accountability and control systems suffered from many weaknesses. Though commentators have typically attributed these system weaknesses to sharp practice, management failure to establish appropriate controls or weak management oversight of established controls, the field research indicates

that poor information and communication also contributed to weaknesses in the banks' systems of accountability and control.

Poor quality information and communication prevented bank directors and managers from effectively monitoring and enforcing compliance with operating standards, which was essential to preventing fraud and maintaining internal control over operations in the banks' increasingly decentralised operating environment. It also undermined effective decision-making with respect to the management of the banks' financial positions and risks. Together, these failures led to serious internal operating problems in the banks, such as the inability to:

- Maintain sufficient capital to meet both strategic needs and regulatory guidelines.
- Minimise losses incurred through investment, foreign exchange and lending activities.
- Ensure the availability of reasonably priced funds to meet ongoing business needs and keep down operating costs.
- Manage both balance sheet and off-balance-sheet positions to meet asset-liability management goals and contain risk within overall policy guidelines.
- Minimise losses incurred through unauthorised transactions, defalcations and the absence of policy enforcement.

A full operational impact assessment appears at Appendix 6 of this study.

The field research also found that explanations for poor information and communication in the failed banks have tended to overlook poor record keeping as a factor. For example, poor communication of business rules and operating standards typically was attributed to either a failure to establish written policies

and procedures or to weak enforcement of those in existence. In contrast, the field research also found that poor management of the creation, distribution and preservation of these types of documents also contributed to problems in the communication of the banks' business rules and performance standards.

Similarly, contrary to common conception, neither "creative accounting" practices nor an inadequate level of computerisation fully explain the poor quality (ie, lack of trustworthiness and timeliness) of the failed banks' accounts. By looking in detail at what interview subjects identified as the source of the problem – that is, weak "management information systems" - and what they actually meant when using this term as well as at how the banks' actually produced their accounts, the field research has shown that the source of the problem also stemmed from poor record keeping. That is to say, the manner in which the banks' records - from policies and procedures, to source documents, to traditional accounting records, to management reports - were created and kept. The banks' record keeping practices failed to support the production of the quality of accounts needed for effective operation of the banks' internal accountability and control systems. Inadequate computerisation was just a specific aspect and manifestation of the broader problem. The next chapter explores the underlying reasons for the banks' poor records creation and keeping practices, as it is only through understanding root causes of the problem that solutions might be found.

End Notes

¹ See for example, "BOJ Governor Keynote Speaker at JIOB Awards Luncheon," *JIOB News* May 1999: 1+; Government of Jamaica, Ministry of Finance and Planning, "Public Sector Response to the Problems of the Financial Sector," Ministry Paper 13/98, 8 April, 1998; Subject B-1, personal interview, Kingston, Jamaica, 20 May 1999.

² Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.

³ See the discussion on this subject in chapter six.

⁴ See for example, the Governor of the Bank of Jamaica's call to strengthen what he perceived to be weak internal audit capacity in the failed banks ["BOJ Governor Keynote Speaker at JIOB Awards Luncheon," *JIOB News* May 1999: 1+]. In one of the failed banks, the internal audit function was not established until 1996 and even then the auditor reported directly to the CEO of the bank, which gave him very little independence [Subject A-10, personal interview, Kingston, Jamaica, 17 June, 1999].

⁵ I define "public debate" as any discussions about the collapse of the Jamaican financial sector that has taken place in the media or in public forums, such as the conference hosted by the University of the West Indies in 1999.

⁶ See for example, subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999; subject A-3, personal interview, Kingston, Jamaica, 20 May, 1999; subject A-18, personal interview, Kingston, Jamaica, 3 August, 1999; and subject C-4, personal interview, Kingston, Jamaica, 30 September, 1999. At the time of writing, the Jamaica Bankers' Association had put forward a proposal for the establishment of a credit bureau that is still under discussion. Removal of the secrecy provisions in the current Banking Act will be needed before this proposal can be implemented, however.

⁷ FINSAC strategies to improve the failed banks' information and communication have included the following: In the area of finance and treasury, cleanup of old reconciling items; consolidating BOJ reporting process of all banks; consolidating financial statement presentation; booking unrecorded assets and liabilities discovered in the different institutions; merging treasury functions, producing single deposit rate sheets, loan rates, interbank borrowing and lending rates and foreign exchange rate sheets, loan rates, interbank borrowing and lending rates and foreign exchange trading rates; reviewing and rationalising from 70 correspondent bank accounts; managing the closure and transfer of the business of three building societies; establishing systems for forecasting and cash management; analysing liquidation/divestment of over 40 subsidiaries. In the area of credit, reviewing and upgrading documentation standards for credit files; developing policies and procedures for credit personnel; establishing consistent collection efforts and methodology across institutions; establishing single securities department; perfecting securities being held but not registered. In the area of operations, consolidating the back office operations of the four banks at 16A Half-Way-Tree Road; automating operations of Workers Bank; Installing new Y2K compliant ATMs; establishing and documenting policies and procedures; establishing a branch rationalisation plan; performing a product mapping exercise; determining product retention from menu across banks. In the area of Information Technology, conversion of ATM and credit cards; facilitating CONFIDA IT Audit; presenting conversion plan and Y2K Plan to Bank of Jamaica; configuring and delivering user report requests; documenting computer operating procedures; establishing IT plan; establishing coordination and integration between IT and Operations; establishing detailed inventory of hardware and software; and formulating and testing disaster recovery plan [Source: Ministry of Finance and Planning, Ministry Paper No. 61, "Update on the Operations of FINSAC," 7 December, 1999].

⁸ Basle Committee on Banking Supervision, "Framework for the Evaluation of Internal Control Systems," January, 1998, 10.

⁹ Basle Committee Framework, 12 and 14.

¹⁰ Bank of Jamaica, Standards of Best Practice, Internal Control, c. 1995, 12.

¹¹ Subject C-1, personal interview, Kingston, Jamaica, 14 September, 1999.

¹² Wilberne, Persaud, "Financial Sector Growth, Innovation and Crises: The Links," Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings.

¹³ Subject A-10, personal interview, Kingston, Jamaica, 17 June, 1999.

¹⁴ Ibid.

¹⁵ See for example, Subject A-10, personal interview, Kingston, Jamaica, 17 June, 1999; Subject C-1, personal interview, Kingston, Jamaica, 14 September, 1999; and Persaud *passim*.

¹⁶ See for example, subject A-16, personal interview, Kingston, Jamaica, 30 July, 1999; “BOJ Governor Keynote Speaker at JIOB Awards Luncheon,” *JIOB News* May 1999: 1+; Government of Jamaica, Ministry of Finance and Planning, “Public Sector Response to the Problems of the Financial Sector,” Ministry Paper 13/98, 8 April, 1998; Subject B-1, personal interview, Kingston, Jamaica, 20 May 1999.

¹⁷ Subject A-2, personal interview, Kingston, Jamaica, 19 May, 1999.

¹⁸ Subject A-10, personal interview, Kingston, Jamaica, 17 June, 1999.

¹⁹ Subject C-1, personal interview, Kingston, Jamaica, 14 September, 1999.

²⁰ See for example, Subject A-14, personal interview, Kingston, Jamaica, 22 July, 1999. The fact that policies and procedures for different operations (eg, credit, operations, human resources and so on) were found in separate manuals prepared by the different units within the organisational structures of the banks also speaks to the fact that there was no centralised coordination of policy and procedures [Subject A-15, personal interview, Kingston, Jamaica, 22 July, 1999 and subject A-16, personal interview, Kingston, Jamaica, 20 July, 1999].

²¹ See notes 18 and 20 above for citations of sources to support these observations.

²² See for example, subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999 and subject A-14, personal interview, Kingston, Jamaica, 22 July, 1999.

²³ See the comments made by subject A-10 regarding the importance of policies and procedures in the internal audit process and the detection of fraud and references to the fact that most policies and procedures in the failed banks were badly out of date [Subject A-10, personal interview, Kingston, Jamaica, 17 June, 1999].

²⁴ Subject C-1, personal interview, Kingston, Jamaica, 14 September, 1999 and Subject C-3, personal interview, Kingston, Jamaica, 29 September, 1999.

²⁵ Basle Committee Framework, 4.

²⁶ Basle Committee Framework, 18.

²⁷ Bank of Jamaica, Standards of Best Practice, 13-18.

²⁸ Subject B-1, personal interview, Kingston, Jamaica, 9 June, 1999 and Subject B-6, personal interview, Kingston, Jamaica, 20 July, 1999.

²⁹ Raymond McLeod, Jr., *Management Information Systems*, Sixth Edition (Englewood Cliffs, New Jersey, Prentice Hall, 1995), 383

³⁰ As for example, subject A-16, personal interview, Kingston, Jamaica, 30 July, 1999. “Subject: That's what we need one management information system. One loan system, one platform and we can't wait until [system name] gets on board so we can do all this.”

³¹ For example, interview subject A-3, personal interview, Kingston, Jamaica, 20 May, 1999 who asked “As a manager sitting there looking at your management information systems and all the numbers and things for your IT systems, how do you get behind these numbers then as a manager and really get to the pulse of what is happening in your organisation behind some of those soft

issues?” Or, subject A-6, personal interview, Kingston, Jamaica, 6 June, 1999 who said “The whole idea of, my idea and philosophy of MIS is to [flatten] the organisation chart so that there are . . . the reporting is simple to understand and that you shorten the lines of communication between the people who are dealing with the customers and the ultimate decision-maker.”

³² Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999: “In terms of computerisation of the accounts. I think, I am trying to break this down, in terms of different institutions. Each of them was computerised differently and some one like [name of bank] really had no computerisation, a lot of it was manual. So if you had to get any information out, what would have to happen is that the information request had to go out to each of the branches. They would have collated the information manually; a time-consuming operation, then it would be collated and given to you. So was that was the worst example in terms of [name of bank]. The other major problem affecting the institutions even one, which were computerized, like [name of bank], was the actual quality of the data . . . They had not got significant report-writing functionality within their management reporting tools. They could not get management data readily out. Management suffered with or just put with what they actually had rather than actually demanding, ‘this is the kind of data we wanted’.” He later goes on to discuss various templates that had been created to provide managers with information about profits and losses and other information required for monitoring and decision-making.

³³ Ibid.

³⁴ “BOJ Governor Keynote Speaker at JIOB Awards Luncheon,” *JIOB News* (May 1999): 1+.

³⁵ Jason Abrahams, “The Need for Restructuring of the Jamaican Financial Architecture and the Way Forward,” Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author’s transcription of taped proceedings.

³⁶ See for example subject A-2, personal interview, Kingston, Jamaica, 19 May, 1999.

³⁷ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.

³⁸ Philip C. Bantin, “The Indiana University Electronic Records Project: Lessons Learned,” *The Information Management Journal* 35, 1 (January 2001): 19.

³⁹ Ibid.

⁴⁰ The source of the information in this section of the discussion primarily derives from on-site inspection of records and record keeping systems at the failed banks.

⁴¹ Subject A-2, personal interview, Kingston, Jamaica, 19 May, 1999.

⁴² See for example, subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999 and subject A-15, personal interview, Kingston, Jamaica, 9 July, 1999. Evidence that one of the banks kept customer histories on cards was derived from the retention schedule for the records of that bank.

⁴³ Subject A-1, personal interview, Kingston, Jamaica, 20 May, 1999.

⁴⁴ Note that, although Jamaican bankers have recognised that the absence of a credit bureau has hindered the effectiveness of their credit risk management and, in recognition of this fact, the Jamaican Bankers’ Association has put forward a proposal to establish a Jamaican credit bureau, secrecy provisions of the current Banking Act have hampered implementation of the proposal.

⁴⁵ See, for example, subject A-3, personal interview, Kingston, Jamaica, 20 May, 1999.

⁴⁶ Subject A-12, personal interview, Kingston, Jamaica, 6 July, 1999.

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- ⁴⁷ Omar Davies, "Introductory Statements," Symposium on the Crisis of the Jamaican Financial Services Sector. University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings.
- ⁴⁸ Ministry of Finance and Planning Paper No. 61.
- ⁴⁹ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.
- ⁵⁰ Bank D, Internal Audit Report, n.d., and Subject A-10, personal interview Kingston, Jamaica, 17 June, 1999.
- ⁵¹ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.
- ⁵² Subject A-18, personal interview, Kingston, Jamaica, 3 August, 1999; Subject A-17, personal interview, Kingston, Jamaica, 2 August, 1999.
- ⁵³ Persaud and subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.
- ⁵⁴ Ministry of Finance and Planning Paper No. 61 and subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999; subject A-15, personal interview, Kingston, Jamaica, 22 July, 1999 and subject A-16, personal interview, Kingston, Jamaica, 30 July, 1999.
- ⁵⁵ Interview with subject A-2, Kingston, Jamaica, 19 May, 1999.
- ⁵⁶ Interview with subject A-1, Kingston, Jamaica, 19 May, 1999.
- ⁵⁷ Interview with subject B-3, Kingston, Jamaica, 25 June, 1999.
- ⁵⁸ Subject B-3, personal interview, Kingston, Jamaica, 25 June, 1999.
- ⁵⁹ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.
- ⁶⁰ Subject A-2, personal interview, Kingston, Jamaica, 19 May, 1999.
- ⁶¹ See Laws of Jamaica, The Banking Act, L.N.42/1995, s.14.
- ⁶² Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.
- ⁶³ See for example, Ministry of Finance and Planning Paper No. 61 and "BOJ Governor Keynote Speaker at JIOB Awards Luncheon," *passim*.
- ⁶⁴ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.
- ⁶⁵ Subject A-17, personal interview, Kingston, Jamaica, 2 August, 1999.
- ⁶⁶ Subject A-4, personal interview, Kingston, Jamaica, 20 May, 1999.
- ⁶⁷ Subject A-4, personal interview, Kingston, Jamaica, 20 May, 1999.
- ⁶⁸ Subject B-6, personal interview, Kingston, Jamaica, 2 June, 1999.
- ⁶⁹ Ministry of Finance and Planning Paper No. 61 *passim*.
- ⁷⁰ Subject A-18, personal interview, Kingston, Jamaica, 3 August, 1999.
- ⁷¹ Ibid.
- ⁷² Subject A-1, personal interview. Kingston, Jamaica, 19 May, 1999.

⁷³ See the discussion on this issue in the previous chapter.

⁷⁴ In addition to the empirical data, this section has been informed by Frank Wood and Alan Sangster, *Business Accounting 1*, 8th Edition (London: Financial Times Professional Ltd, 1999); Anthony Saunders, *Financial Institutions Management: A Modern Perspective*, 3rd ed. (Boston, MA: McGraw-Hill, 2000); Geoffrey Lipscombe and Keith Pond, *Banking: The Business*, 3rd ed. (Loughborough: Loughbournough University Banking Centre, 1998); Shelagh Heffernan, *Modern Banking in Theory and Practice* (New York: John Wiley & Sons, 1996); and Diana McNaughton, *Banking Institutions in Developing Markets, Volume I* (Washington, D.C.: World Bank, 1992).

⁷⁵ Subject A-17, personal interview, Kingston, Jamaica, 2 August, 1999; subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.

⁷⁶ Subject B-6, personal interview, Kingston, Jamaica, 13 July, 1999.

⁷⁷ Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.

⁷⁸ Ibid.

⁷⁹ Interview with subject A-10, Kingston, Jamaica, 17 June, 1999.

⁸⁰ Subject B-6, personal interview, Kingston, Jamaica, 13 July, 1999.

Chapter Eight: Explaining Record Keeping in Failed Jamaican Commercial Banks

Introduction

The previous chapter illustrated how poor records creation and keeping practices and systems contributed to an absence of quality accounting and management information in the failed Jamaican commercial banks. As a result, this information presented a misleading account of the banks' financial positions and risk exposures. This weakened the banks' systems of internal accountability and control and, along with other factors, led to operational inefficiencies in failed banks that contributed to their demise. The previous chapter did not, however, explore in any great depth explanations for the failed banks' record creation and keeping practices and systems. Why, for example, did the banks' directors and managers allow record creation and keeping that undermined the quality of information needed to support effective accountability and control? Would it not have been in their best interests, or at least the best interests of their banks, to ensure that record creation and keeping supported this important aim? This chapter seeks to answer these questions by discussing field

research data that accounts for records creation and keeping in the failed Jamaican commercial banks.

In discussing the reasons for the banks' records creation and keeping practices and systems this chapter also aims to use the field research data to illustrate how, as discussed in chapter three, social and technological influences on the inscription, transmission, and contextualization of records over time shape the meaning of records and how that meaning may be less than what is required to support organisational accountability. In doing so, the chapter goes against received wisdom that weaknesses in the banks' accounting and management information in respect of what was required to support the banks' systems of internal accountability and control were primarily the outcome of deliberate efforts on the part of some directors and managers to conceal evidence of sharp practice or to present a rosier picture of their banks' financial positions.¹ Instead, the chapter argues, in keeping with the ideas presented in chapter three, that because record creation and keeping was relatively uncontrolled in failed Jamaican commercial banks, individual, group and societal values, beliefs and norms influenced bank officers choices about if and how the banks' records were inscribed, transmitted and contextualized, the technologies used in doing so, and how these technologies were deployed. Thus, the meaning of the banks' accounts – that is, the misleading picture these accounts presented of the banks' financial positions and risk exposures as judged in the aftermath of the bank failures – was not always the result of deliberate efforts on the part of directors and managers to manipulate accounting numbers. Rather, the meaning of the banks' accounts was actually the consequence of a collectivity of individual unmanaged and uncontrolled record

creation and keeping decisions, some deliberately self-serving others not, made in the context of decentralised organisational settings.

Since the explanation of the banks' record creation and keeping put forward in this chapter relies upon an understanding of social actors' motivations, it raises questions about the extent to which the field research data, mainly interviews, can be depended upon to reveal underlying beliefs, values and attitudes. Appendix 2 includes a discussion of this issue, arguing that, though providing no definitive answers, the interview data provide important clues and valuable insights about how social actors viewed and ordered their social world. It is to a discussion of this data that the chapter now turns, beginning with an exploration of sharp practice as an explanation of the banks' record creation and keeping and then moving on to explore lack of organisational control over record creation and keeping as an alternative explanation.

Considering Sharp Practice as an Explanation for Record Creation and Keeping Practices in Failed Jamaican Commercial Banks

This chapter begins with a discussion of self dealing behaviour on the part of directors and managers of failed Jamaican commercial banks as an explanation for the banks' record making and keeping practices, as this is widely accepted as having been a factor often to the exclusion of other reasons. Many of those interviewed for the research project, as well as public commentators, government officials and others have pointed to the fact that directors and managers in failed banks engaged in practice that was motivated by a desire to circumvent Jamaica's bank regulatory and supervisory framework or reap benefits for themselves and their "cronies."² As a

result, at all organisational levels, there were times when individuals deliberately avoided the creation of an accurate and complete record, or even avoided the creation of any record at all, in order to keep the details of a transaction from being known. As one interview subject stated, there was a certain deliberate vagueness in documentation, the root cause of which was that directors and senior managers were out to “feather their own nests.”³

One type of decision for which this failure to give account was most evident was the granting of loans. In many instances, loans were not properly documented and booked (ie, recorded in loan books of original entry). As revealed by one interview subject:

There are certain cases. I won't mention any names. There are cases where directors would take out loans to themselves and never pay at subsidised interest rates and it is very hard to find it on the books. Because of course the directors know the system and know how to beat it.⁴

In some cases there was “wilful intention” not to document to get away with things. Others knew what was going on (eg, financial controller) but were instructed to turn a blind eye by senior managers.⁵ The failure to document and book loans made these loans “invisible” to those whose job it was to track the credit risks of the banks and to ensure assets and liabilities were appropriately matched and risks adequately covered by sufficient capital and liquidity. The absence of proper records of loan transactions contributed to a distorted picture of the banks' risks, the health of their loan portfolios, and their overall financial positions. This, in turn, prevented managers, directors and bank regulators from taking action to correct operating problems. Such problems could not be corrected since they were not known.

Not only must records be inscribed in order to support the operation of internal accountabilities and controls, they must be kept until such time as they are no longer needed to fulfil the requirements of organisational and broader societal accountability relationships. Several subjects looking to hold directors and managers to account after the collapse of the indigenous commercial banks have pointed out that records needed for accountability purposes were missing. These interview subjects strongly suspect that records were deliberately destroyed to cover up wrongdoing.⁶

Though the field research clearly supports the argument that sharp practice contributed to record creation and keeping practices in failed Jamaican commercial banks, it still leaves important questions unanswered. How, for example, could sharp practice on the part of a relative few explain the magnitude and pervasiveness of the banks' accounting and management information problems and the degree of non-compliance with established records management policies and procedures? Why did the banks' employees and managers neglect to manage source documents even when these related to perfectly legitimate transactions? Given that the argument of sharp practice does not offer answers to these questions, other reasons to explain the banks' record creation and keeping practices must be explored.

Organisational Anomie and its Effects on Record Creation and Keeping Practices in Failed Jamaican Commercial Banks

When an organisation has clearly defined values, beliefs and norms usually these are articulated as business rules in written policies, procedures, standards, guidelines and similar forms of documentation. The field research conducted for this study revealed

that each of the failed Jamaican commercial banks lacked a clear set of shared values, beliefs and norms concerning records creation and keeping as evidenced by an absence of well defined written business rules concerning all aspects of records creation and keeping. In other words, as discussed in chapter three, they suffered from organisational anomie with respect to creating and keeping records.

Instead of clearly defined business rules, in the failed Jamaican commercial banks there existed no written policies and procedures concerning many aspects of record creation and keeping. For example, one interview subject noted in relation to computerised customer information files, “You will find that there was no standardisation of inputting data. So what you find is a CIF (customer information file), [they] were extremely variously inputted at random by different people.”⁷ This led to critical errors and omissions in customer information records as discussed in the previous chapter. Moreover, even those policies and procedures relating to records creation and keeping that had been established were fragmented, and poorly communicated, monitored and enforced. These problems contributed to gaps in coverage and confusion in implementation. The result was poor internal accountability and control of record keeping processes, which ultimately led to the production of accounting and management information of a quality insufficient to sustain internal accountability and control over many areas of the banks’ operations and needed to provide directors and managers with information to support effective decision making.

As mentioned in chapter three, organisational anomie often comes about as a result of rapid change that disrupts traditional values and norms of behaviour. This is a

situation that defined the environment in which the failed Jamaican commercial banks found themselves immediately before and during the financial sector problems. As noted in chapter six, throughout this period most banks underwent rapid growth, decentralisation and specialisation spurred on by Jamaica's changing economic environment.

In discussions relating to inadequacies of credit and securities files in the failed banks, interview subjects have indicated that rapid growth, decentralisation and specialisation were factors in the absence of clear record creation and keeping business rules. Very often as the banks' branch networks expanded in response to competitive pressures, old business rules and structures no longer worked.⁸ In many cases the banks failed to put in place appropriate new business rules and structures or, in cases when they did, failed to monitor how well these were being implemented, being busy with other pressing operational priorities because of the expanded scope of their activities.

An account of what happened in one of the failed banks is instructive on this point. In this particular bank, credit administration was decentralised during a period of expansion in order to facilitate more efficient processing of loans in a growing branch network. Under this system each branch had a securities clerk, reporting to the branch manager, who was responsible for loan documentation. However, with decentralisation, securities clerks in the branches could no longer apply the banks' old business rules for handling these types of records. Thus, securities clerks created and managed records in their custody according to individualised preferences, level of knowledge and priorities. Moreover, branch managers - being responsible for

operations, credit administration and marketing - had little time and incentive to monitor the work of their securities clerks. This situation eventually led to a breakdown of order and consistency in the organisation and management of the bank's credit related records. The quality of credit and securities files rapidly deteriorated and loan documentation became incomplete and inconsistent.⁹

In 1994, to address growing loan documentation problems, the bank undertook a study that led to the re-centralisation of its fragmented and poorly managed credit related records stores as part of an exercise to re-centralise the approval of credit and, thus, to strengthen internal control of credit administration. The bank's experiences with respect to this re-centralisation exercise indicate that it was not only centralisation that improved the bank's loan documentation but the re-establishment of clear business rules backed by a strong record keeping "regulator" to ensure acceptance of and compliance with those rules. In this bank, as in others, documents concerning loans to customers were filed on both the customer's credit file and a separate securities file, which held legal documentation such as mortgages. With restructuring, the bank moved its securities files from out in the branches to a centralised records store - the securities department - overseen by an experienced and trained securities manager supported by an assistant manager, a securities supervisor and eight securities clerks. In addition, the bank established detailed operating procedures for the unit to ensure that securities documentation was complete and reliable.¹⁰ In comparison with three of the other four failed banks examined for this study, after the centralisation exercise this bank's securities files were relatively reliable and complete.

The same bank's approach to handling its credit files differed notably, although it centralised storage of these files as well. At the time of the review conducted for this study, a single low level clerk without experience or training in either credit administration or records management was responsible for the operation of the registry in which these files were housed. A physical inspection of the registry conducted by this researcher revealed that files from a number of branches and subsidiaries previously absorbed by the bank had not been integrated into the registry's sequence of file arrangement, thereby complicating retrieval of information. Security was also lax: on one visit to the bank the researcher was able to enter the registry and explore without detection. Only just prior to the site visit conducted for this research project the bank had established some procedures concerning the organisation of the documents in the credit files, finally recognising that lack of a clear policy and procedures for the operation of its credit files' registry was contributing to problems in the organisation and retrieval of these records. The bank had incorporated the new policy and procedures into its credit policy manual. At the time of the site visit these procedures had been implemented only partially.¹¹ As a result, the quality of the files was poor and many were "missing in action."

This bank's experience illustrates that, despite centralising credit administration and files storage, the files remained poorly controlled in the absence of clear written record keeping business rules and standards and a strong records management regulator. As a result, the bank experienced continuing difficulty in retrieving complete information concerning particular loan arrangements.¹² In contrast, strong records control and regulation in conjunction with centralisation of records stores brought about improvement in the quality of the bank's securities files. Clearly

documented business rules and a strong records management regulator formed an essential part of the bank's success in regaining control over its securities files.

Though there was an absence of clear business rules concerning many aspects of record creation and keeping in the failed banks, over time the banks established a number of policies and procedures addressing aspects of the creation and keeping of records. Nevertheless, the limited scope and fragmentation of the banks' record creation and keeping policy and procedural frameworks left many "potholes" in records accountabilities and controls.

Appendix 7 provides a summary of the records management policies and procedures of four failed Jamaican commercial banks. As the summary indicates, only three of the four failed banks had established records management policies and procedures. Records management policies generally were of limited scope in terms of the types of records for which they set standards of record keeping as well as in terms of the phases of the records' life cycle that they covered. The policies, for example, pertained strictly to paper records. Provisions concerning records generated by the banks' computer systems were limited to addressing the retention of computer print outs in paper form. That left a whole host of electronic records, such as the many spreadsheets created using office productivity software such as Excel, outside the provisions of any record keeping policies and procedures. Moreover, the banks' records management policies did not extend to cover even all paper records, but were limited to records generated as a result of specific functions or in particular business areas, such as customer records, internal bank transactions, operations, branch records, data centres and, in one case, an executive office. Record keeping in respect

of other functions and areas within the banks remained outside the provisions of the banks' records management policies. In addition, most of the records management policies only included provisions for the management of records after they had already become non-current. Only one bank had a records management policy that contained provisions to establish control of records while they were still in active use.

Controls over record creation, such as existed, were not generally to be found in records management policies and procedures but in policies and procedures related to particular business functions or operational areas, as in the case of one bank where the creation of records linked to credit analysis and risk management was encompassed in the credit administration manual.¹³ Managers of the specific functional areas to which these policies and procedures related had responsibility for the content and administration of such policies. The field research uncovered no evidence that the banks systematically integrated their records management policies - for example, through cross-referencing or inclusion in a unified manual - with policies relating to the creation of records found in operational manuals.

Finally, in some cases the banks had established separate policies and procedures aimed at controlling computerised systems. Again, these policies and procedures were neither integrated with operational policies and procedures nor with those for records management. Staff with information technology expertise had responsibility for the content and administration of these policies.

The fragmented nature of the banks' information related policy and procedural frameworks as well as fragmentation of responsibility for implementation and

compliance monitoring of record keeping business rules and standards indicates that management did not base these frameworks on any systematic examination of the banks' overall information requirements. Instead, policies tended to "sprout" from different areas to address particular aspects of records creation and keeping as the need became obvious. For example, records management policies seem to have arisen to address mounting paper records storage problems. Consequently, establishment of a records management policy came rather late in the day in three of the four failed banks included in the study and not at all in the other.

In terms of the requirements of effective accountability and control, the result of the banks' gap-ridden and fragmented policy and procedural frameworks and regulation was undesirable. Fragmentation as well as the limited scope of their records management policies and procedures encouraged an uneven and splintered approach to controlling records creation and keeping processes. Creation and keeping of some categories of records were subject to corporate standards, while there existed no formal accountabilities for the creation and keeping of other categories, such as spreadsheets in electronic form. In the case of records not covered by the policies, management of records creation and keeping was left to the discretion of records creators, information technology staff or others into whose hands the records variously fell in the course of their existence.

As important as it is to understand the negative organisational consequences of the banks' fragmented record creation and keeping policy and procedural frameworks, it is equally important to understand why the banks established, and later failed to change, such apparently illogical and inefficient structures. This can, in part, be

explained by the fact that no single person or group within the failed banks had responsibility for establishing or coordinating accountabilities and controls for recorded information. In other words, there was no strong records management regulator in the failed banks. Rather, this responsibility fell to different groups of operational managers and information technology specialists who, as noted above, promulgated records related policies and procedures as they saw the need. Each of these groups had only their own, arguably limited, perspective on the controls necessary to support the banks' operations. With increasing decentralisation and specialisation, their perspectives grew more and more focused. No one in these banks had "the big picture" and therefore information related problems went undetected, or even if detected the source and nature of such problems were not well understood. The shortcomings of the banks' policy and procedural frameworks worked against the production of trustworthy and timely accounting and management information.

Another factor contributing to the fragmentation of the banks' policy and procedural framework lay in the mindset of the banks' operational managers. The vast majority of those at the managerial level in the failed Jamaican commercial banks came from a business and accounting background.¹⁴ Thus, it is possible to surmise that their conceptualisation of the kinds of documentation produced in the course of accounting for the banks' financial transactions reflected the accounting perspective. From this perspective, as already mentioned in chapter three, vouchers, correspondence and other paper-based records are viewed as source documents. Though these records form a basis for the accounting process, they are a pre-cursor to it in the sense that formal accounting for a transaction traditionally begins with the making of a journal entry.¹⁵ As the creation of source documents comes before what is traditionally

conceptualised as the start of the accounting process, it is possible to see why, in the failed Jamaican commercial banks, the management of source documents came to be dealt with in distinct records management policies and procedures and not as part of operational policies concerned with accounting and financial management.

Nor did the vast majority of those responsible for managing the failed Jamaican commercial banks have much of an understanding of information technology.¹⁶ With increasing computerisation of the banks' transaction processing and accounting systems, information technology specialists drove the policy and procedural framework governing management of the banks' computerised systems. As a result, this aspect of the banks' records related policy and procedural framework became quite distinct from financial management processes and policies. Naturally, these policies and procedures reflected the preoccupations and concerns of the specialist information technology group, concerns such as the ability to protect the organisation against loss of data in the event of system faults and from losses due to breaches of system security rather than with the keeping of records as evidence of business transactions.

As the above discussion indicates, there were almost insuperable divides in the banks' internal regulatory framework for managing records creation and keeping processes. Policy and procedural divides had the effect of fragmenting the banks' approach to managing records related processes: control over paper-based source documents generally fell to operational managers who delegated the work to low level clerical staff, while control over information in computerised systems fell to information technology specialists.

As the regulatory framework suggests, there existed no overall coordinated approach and set of values, beliefs and norms concerning record creation and keeping in the banks, but rather group approaches, values, beliefs and norms. Far from generating clear rules of behaviour based on a systematic assessment of the information required to support internal accountability and control for their organisations as a whole, the banks' fragmented policy and regulatory frameworks produced a confusing tangle of directives. These proved ineffective in guiding and constraining individual record creation and keeping behaviour and ensuring that such behaviour met the requirements of internal accountability and control.

Poor communication and weak compliance monitoring and enforcement of corporate policies also rendered the banks' records creation and keeping policies and procedures ineffective and largely meaningless. These policies and procedures suffered from the same weakness in their communication as other operational policies and procedures, discussed at length in the previous chapter. Site visits conducted during the course of the field research revealed that records related policies and procedures often were observed more in the breach than in the rule.¹⁷

Why was monitoring and enforcement of the banks' records related policies weak?

As discussed in chapter seven, monitoring and enforcement of all types of policies and procedures in the failed banks was weak, not just those related to record creation and keeping. Rapid growth and decentralisation certainly contributed to the problem. It is possible to surmise that these changes created an operating environment in which managers had more difficulty obtaining the information they required to effectively

supervise the extent to which a growing number of staff were complying with the banks' business rules. As mentioned in the previous chapter, a weak to non-existent internal audit function in the failed banks generally tended to exacerbate already weakened policy monitoring and enforcement.

Records related policies and procedures, however, appeared to suffer from extremely weak monitoring and enforcement, if the degree to which the banks' management tolerated breaches in these policies and procedures is any indication. The particularly poor track record with respect to records related policies and procedures demands explanation. The reason is that, in a growth situation, managers, who were under greater pressure to make decisions and process transactions, had to prioritise their activities. Control of record creation and keeping processes was not a top priority, as indicated in this comment from one of the research subjects:

Simply because I don't think that records management although it's probably one of our most, one of our highest risk areas it's not something that is looked at as a very important, although as I said once you can't find a document everybody starts to jump all over each other, but the time, the money et cetera is not something that I think people focus enough to say that this is such an important project let us carry it through to the bitter end. You see? . . . Something is always more important. There is always another major blaze that somebody has to go and out and put this to the back end.¹⁸

Managers' low prioritisation of record keeping likely was linked to their understanding of it as separate from the banks' core accounting and financial management functions and as a function concerned primarily with the storage and retention of paper source documents. In addition, with increasing decentralisation and fragmentation of responsibility for record keeping in the banks, no single person or group had the ability to see the combined effects that poor record creation and keeping practices were having on the quality of the banks' accounting and

management information and, ultimately, their internal control and decision-making. This lack of insight prevented many managers from moving the function higher up on their list of priorities. The low importance managers generally assigned to the record keeping function contributed to the low priority assigned to monitoring and enforcing records-related policies and procedures.

Contrasting Record Creation and Keeping Practices in Failed Jamaican Commercial Banks with those of Viable Jamaican Commercial Banks

So far, this chapter has advanced the argument that organisational anomie – the absence of widespread acceptance of a clear set of shared values, beliefs and norms – with respect to record creation and keeping contributed to the record creation and keeping practices of failed Jamaican commercial banks. If this is so, then we might expect to find that viable banks exhibited better accounting and management information, as measured against the requirements of effective internal accountability and control systems, and had stronger and less fragmented record keeping policy and procedural frameworks. Yet, surprisingly, in the one viable bank included in the research sample that did not suffer from the records related problems of the failed banks, the policy and procedural framework appears not to have differed significantly from those of the failed banks.

While this bank's records management policy dated from much earlier than those of the failed banks - 1991, as opposed to 1996 being the earliest of the records management policies in the failed banks - it was similar in scope and coverage (see Appendix 7). Also like the failed banks, this viable bank set out business rules

concerning record creation in operational policies and procedures and rules concerning system backups and security in separate information technology policies and procedures, not in its records management policy nor in a unified policy on matters relating to records and information.¹⁹ Similarly, this bank had no strong records management regulator; rather, as in the failed banks, regulation of the function fell to various operational managers, the internal auditor, and internal information technology specialists.

Based on interviews with managers of this bank, it is possible to conclude that the overall scope and structure of its records related policy and procedural framework did not differ significantly from those of the failed banks because certain aspects of the ideology of its management did not differ significantly from the ideology of management in the failed banks. As in the case of managers of the failed banks, this bank's managers also primarily came from an accounting background and therefore shared similar conceptualisations of records. They also held similar views about records management; for example, one of its managers said in response to a question about records management: "Of course you recognise that records management per se is not seen as a priority item by us."²⁰

Nevertheless, there were some important differences between the viable bank and the failed banks. First this bank had not experienced the same rapid growth, decentralisation and specialisation experienced by the failed banks during the period of the financial crisis but had remained relatively small in size and scope of operations. As a result, it can be argued that the bank had not experienced the same level of disruption in well-established business practice with respect to record keeping

and, moreover, was much less reliant on the promulgation of written policies and procedures to communicate new record creation and keeping values, beliefs and norms of behaviour. In its relatively small operating environment it was still possible to communicate these values, beliefs and norms orally and by personal example, even when they were not explicitly recorded.

Second, the bank closely monitored and enforced all of its policies, including those related to record keeping. The bank's internal audit area regularly audited record keeping practices, as these were viewed as being part and parcel of the bank's other internal controls.²¹ The findings of internal audits were reported to the manager of the audited unit as well as to the bank's chief executive officer. It was expected, and required, that any deviations from established policy or any operational problems needing correction be dealt with expeditiously. Moreover, being a foreign-owned bank, the local operations were subject to inspection by the parent company, which also apparently took seriously the establishment of proper controls over records creation and keeping. Comments by the bank's managers indicate that oversight by the parent company set the tone of the bank's internal control culture at the local level, a culture dictating that local managers take records control seriously. This may seem at odds with the apparently low level priority managers assigned records management; however, the apparent contradiction can be explained by the fact that managers did not necessarily associate records control with records management but rather with internal control systems.²² That the bank remained relatively small also permitted a level of monitoring and enforcement that the much larger failed banks did not have the management capacity to maintain.

That being said, at the time of the field research this bank was coming under some of the same pressures of growth and decentralisation that the failed banks had experienced earlier. This was due, in large part, to taking up some of the business of the collapsed indigenous commercial banks. With an increase in the scope and number of its transactions, the bank was beginning to show signs of some of the records related control strains evident in the failed banks. Managers complained of increasing fragmentation of information related to customers and of missing or inconveniently slow flowing information.²³

It was in their reaction to the emergence of these problems that managers in the viable bank differed from those in the failed banks. Exhibiting a clear understanding of the negative effects these problems were having on their ability to manage their risks and provide good customer service, managers in this viable bank acted relatively quickly (a matter of months) to devise strategies to address the bank's emerging record keeping problems. At the time of the interviews for this study, the bank's managers were in the process of centralising record keeping under a single middle-level manager with lengthy experience at the bank and developing new business rules for the operation of a proposed centralised registry unit. They were also exploring the possibility of imaging their documentation to aid in its management and retrieval.²⁴

The reasons for quick action on the part of the viable bank's management must be left to speculation, though at least three possibilities present themselves. First of all, it is possible to argue that because the bank was still relatively small, managers were in a better position to make a connection between emerging record keeping problems and operational inefficiencies such as weakened risk analysis and customer service. In larger, more decentralised organisations, wherein several different processors working

in a number of discrete departments or units may handle a single business transaction, management can experience greater difficulty in seeing how records related problems produce operational inefficiencies. Again, as stated earlier, they may lack “the big picture.” Secondly, it is possible that the bank’s managers simply had a greater awareness and sensitivity to the effects of records related problems than managers in the failed banks due to exposure to foreign operations. Finally, it might be argued that their accountability to foreign managers, which was taken very seriously, prompted them to act quickly to address any threat to the efficient performance of their bank and its competitive position. A combination of any of these explanations may well have been in operation as well.

Social and Technical Influences on Record Creation and Keeping Practices in Failed Jamaican Commercial Banks

In the failed banks, there being no clear organisational record keeping value system and internal regulation, social actors created and kept records according to their own motivations and interests. Behind their individual motivations and interests lay a multitude of individual, group and societal values, beliefs and norms. While some people obviously were motivated by self-interest and therefore willing to engage in record creation and keeping practices that deliberately flouted organisational policies, many more had no conscious intention of subverting the internal accountabilities and controls of the banks in which they worked; they were trying to do their best.

Regardless of underlying motivations, the influences that drove how individuals created and kept records, and the technologies they used in doing so, often produced sub-optimal results in that they led to deviations from the conditions of record creation and keeping that would have produced the quality of accounting and

management information needed to support effective operation of organisational systems of accountability. This, in turn, weakened the banks' internal control and decision-making. Some examples will serve to illustrate this dynamic.

Influences on Record Creation

Though it cannot be said that the failed banks had established an organisational culture of record keeping in any premeditated and systematic way, to a certain degree the value system of the banks' directors and operational managers as a definable group naturally influenced norms of record creation and keeping behaviour throughout the failed banks. Managers' value system, often unconsciously held, formed a de facto record keeping organisational culture. Ironically, this de facto culture conflicted with the value system underlying the banks' written policies and procedures. Moreover, rather than encouraging record creation and keeping practices supportive of the production of trustworthy and timely accounting and management information, these values and beliefs subtly encouraged record creation and keeping behaviour that led to the production of less trustworthy and timely recorded information.

As noted above, the banks' management generally viewed record creation and keeping as a back office function lacking in importance and glamour as compared to the front office functions of banking operations.²⁵ Consequently, they generally directed little attention and resources to controlling processes of record creation and keeping. Field research has indicated, for instance, that the creation of initial source documentation for financial transactions was a duty that management generally

assigned to lower level clerical staff with little or no training on the proper completion of the documentation. Management attitudes that record keeping processes were a low priority filtered down to these staff. As a result, they took little care to create accurate and complete documentation. For the most part, the overriding concern of staff involved in the creation of initial documentation was an immediate need to process the transaction as expeditiously as possible. They exhibited little appreciation of the need for adequate recording of transactions to meet the requirements of internal accountability and control. Nor did supervisors of the junior staff insist on accuracy and completeness, as they often were equally ignorant of the effects of poor documentation on internal accountability and control, more interested in core front office functions, and often under pressure to market financial products and services as well as perform administrative duties.²⁶

Group values, beliefs and norms also influenced choices about the technology of record creation. In turn, this technology had its own mediating effects on the quality of the banks' accounts. The inadequacies of the banks' computer systems in terms of producing the kinds of information that management needed to maintain effective internal accountability and control have been discussed at length in the previous chapter. Far from being simply a technological failure, the results of this study indicate that the failure of these systems can also be attributed to the values and ideas of the banks' operational managers. As one interview subject noted, the systems related problems arose not just from the systems: "There [were] also management issues."²⁷

What were these issues? The shortcomings of the banks' systems can be traced to the fact that they had been modified in a piecemeal fashion throughout the years to maintain minimum service levels but had not kept pace with technological change. Some banks went through three different systems in two years. Many had been forced to upgrade because of the Year 2000 issue, but instead of taking the opportunity to completely modernise the banks had been "patching" and changing the systems so as to be merely compliant while the overall system remained inefficient.²⁸

One interview subject accounted for the banks' short-sighted information technology strategy as a function of lack of funds to purchase or develop new systems.²⁹ This explanation is not entirely compelling given the amount of money that the banks found for other, very capital-intensive, projects such as construction and acquisition of office buildings. More convincing is an explanation offered by another respondent, who commented that the banks had not spent the money because

. . . there is a lack of appreciation for systems and technology. You found that managers and even personnel didn't appreciate the value of technology. Using a PC was relegated to either a teller or a secretary.³⁰

This lack of appreciation, which started at the very top of the failed institutions and filtered throughout, according to this subject, in turn stemmed from a general lack of understanding about information technology that characterised the attitudes of "old bankers."³¹

The responses of interview subjects also suggest that management attitudes toward technology in the four failed banks lay in the insularity of their managers. As previously mentioned in chapter six, these bankers lacked exposure to new financial services products and the latest methods for managing and controlling the risks

associated with such products. Although they were moving into new business areas in a liberalised market, they were not up-to-date on how to manage the new complexities of their business. On this basis, it is possible to argue that the strength of the banks under foreign ownership may have been the extent to which they were exposed to the use of information technology in the management of risks through the practices of their parent companies. Certainly, the much greater level of sophistication and system integration in one of the viable Jamaican banks supports this theory.

Conflicting interests and attitudes among operational managers and information technology specialists, on whom the banks' management increasingly relied, also shaped how the banks' computerised systems operated and the kinds of records they produced. Operational management's lack of understanding of information technology encouraged them to delegate consideration of information systems issues to information technology specialists. In many cases, these specialists were consultants with an interest in selling their particular technology solution regardless of whether this solution addressed the business information requirements of the bank. As some subjects have suggested, information technology specialists recommended the wrong systems or ones that did not support the complexity of business functions.

In the words of one interviewee,

... the software companies, they have done a lot of systems for different banks so they have an idea that these are the general information required by the organisation and so these reports are normally generated by the system. It comes into my bank. We have our own peculiarities and we don't like the reports structured that way and we don't like this report, but instead of getting it changed we accept these reports and we use them.³²

As a result, transaction processing and accounting systems lacked appropriate functionality and therefore produced sub-standard accounting and management

information. For example, one interview subject told of a bank in which the general ledger system designed for retail banking was not sophisticated enough to handle complex foreign exchange and treasury functions. This necessitated having two systems, one for the retail banking side and one for the more sophisticated general ledger functions, a situation that contributed directly to the system interface problems noted in chapter seven.³³

Over time, the banks employed in-house systems staff to manage their computerised transaction processing and accounting systems. Just as the bank's directors and managers relied upon information technology specialists in the initial selection or development of their computerised systems, so too did they come to rely upon these specialists to make changes and adjustments to the banks' systems. As the banks expanded the range of their products and services in a changing economic environment, the gap between organisational information requirements and the functionality of the banks' systems continued to grow. This increased operational managers' reliance on information technology specialists to make necessary systems changes. However, the interests of the two groups often collided in ways that limited the quality of available accounting and management information. One subject cited a case in which a new report was required to address a serious problem with fraud and forgeries:

. . . we were having a problem with forgeries and frauds to do with accounts that were opened where they were lodging forged cheques to account. Now, we designed a report that allowed us to detect those things the day after [they were] processed . . . And, in fact, when we went to IT and we said we needed this report, they said to us "we do not see why you need this report because nobody else has ever asked for this." But we insisted . . . [and] we have saved over, I would think conservatively, \$J100 million (\$US2.5 million).³⁴

It is clear that information technology staff, with their own motivations and interests, were not responding to management's requirements for accountability and control of financial transactions. Managers interviewed for this study suggest that one of the reasons why information technology specialists were not responsive to their demands was that these staff lacked an understanding of the business. As one subject stated:

. . . you [are] sitting in the back end in IT, [are] picking a system that has authorisation, for argument sake, online. You are not certain of all the steps [in the process]. All the steps that take place in processing a cheque. You are not privy because you have never worked in a branch. You work in IT . . . all you know is that there is a module called cheque authorisation online, but you don't understand the processes that would take place before authorisation can happen.³⁵

Whatever the reasons, there emerged an increasing rift between the attitudes and interests of operational managers and the banks' information technology specialists. Often, the information technology specialists, with their monopoly on technical knowledge, won out, which led to a situation in which the banks' information technology strategies were driven more by technological considerations than by business requirements. It is, therefore, not surprising that these systems in many ways performed sub-optimally in terms of providing the kind of trustworthy and timely information the banks' managers needed to maintain effective control over their banking operations.

It is also evident, however, that the banks' management failed to clearly articulate their information requirements to information technology consultants and in-house specialists. The root of the problem was not only that management failed to understand the importance and application of information technology but also that managers failed to understand and appreciate the banks' record keeping requirements. Stepping back to look at the problem from the wider perspective of the general

approach to managing records and information, it is possible to see a failure on the part of the collapsed banks' management to consider the implications and requirements for records and information upon entry into new areas of business activity or products, or when changes were made to existing business activities or products. Had they done so, identification of the records and information required to manage the risks associated with new areas of business more likely would have determined the information technology requirements. Instead, the requirements of existing information technology drove the records and information available to support new business activities and the management of their associated risks. And, as many respondents have pointed out, the records and information that were available proved insufficient.

Not only group cultures, but the culture of the wider Jamaican society also gave rise to the motivations that produced individuals' record creation and keeping behaviour. There are two ways in which the field research revealed that Jamaican culture was a factor in the banks' record creation practices, particularly in the failure to document financial transactions. First, some commentators argue that because Jamaica is a small society many deals were made on the basis of personal contacts. In commenting on this phenomenon, Jamaica's Minister of Finance, Omar Davies, has stated that in a small community, decisions cannot be made dispassionately, noting that you can have rules but "sooner or later you get a call."³⁶ He also has observed that the tendency to do business with friends or known associates in the context of a small society undermines the creation of documentation (ie, because the other party is known to the banker and there is greater trust), adding that this was the reason why some of the loan documentation in the failed banks was non-existent or incomplete.³⁷

These comments point back to the discussion of accountability in chapter two where it was noted that both hierarchical and lateral forms of accountability co-exist in organisations. Though the literature on the subject portrays lateral forms of accountability in terms of an informal relationship with co-workers, it is possible to argue that bank officials' informal relationship with external parties also constituted a form of lateral accountability. Recalling that accountability is the liability to give account of, and answer for, the discharge of duties or conduct, there exists in such relationships an obligation on the part of one party to another. In informal lateral accountability relationships this obligation tends to be implied. It is, nevertheless, arguably no less compelling as a determinant of action on the part of accountable persons. For example, a person may have strong familial obligations arising from social values. In the Jamaican context, there also exist strong bonds of social and political community that give rise to implied obligations. Thus, it is possible to speculate that in many cases family or community members would have had expectations of bank officers and would have held them accountable informally for conforming to those expectations. In addition, bank officers' failure to act in accordance with implied obligations may have resulted in family or community censure. In many cases, these forms of accountability appear to have had a greater influence on individuals' record making behaviour in the failed banks because the consequences of non-compliance were more compelling. Specifically, in an organisational culture where the enforcement of policies and procedures was weak, individuals in the failed banks had a greater incentive to act in accordance with external accountabilities in order to avoid the more imminent possibility of family, social or political repercussions. These lateral forms of accountability, underpinned

as they were by values and norms of behaviour that contradicted behaviour in keeping with the production of trustworthy and timely documentation, served to undermine the banks' internal systems of accountability by discouraging proper documentation of business transactions.

In addition to the effects of a small society on the creation of documentation, some subjects point to a generally held belief that Jamaican people favour oral forms of communication and therefore are less likely to make records. As one interview subject remarked:

. . . it is very difficult to get [employees] to put this information down on paper. Maybe it is because we are not very literate in that we don't like writing letters and writing memos and that sort of thing. We just don't do it.³⁸

This cultural aversion to record making was clearly evident among the Jamaican employees in the banks that failed. In contrast, the research data reveals that Jamaican employees working in foreign-owned banks that remained viable created documents where their counterparts in the failed banks did not.

This difference in behaviour among people from the same cultural background can be attributed to the fact that in the foreign-owned banks the cultural values of the foreign parent company, in part reflecting the broader cultural values of a North American society more oriented to making records, placed greater emphasis and importance on documenting transactions. Moreover, the field research has indicated that in at least one foreign-owned bank these cultural values were unequivocally embedded in the bank's business rules of operation and that these rules were clearly communicated. Additionally, adherence to these rules was well monitored and enforced in this foreign-owned bank. In other words, the bank did not suffer from the same level of

organisational record creation and keeping anomie characteristic of the failed Jamaican commercial banks. The research also suggests that the seriousness with which this bank took the making of records may, in fact, have been encouraged by the fact that it was subject to the oversight of a foreign regulatory and supervisory authority with more stringent requirements than those of the Bank of Jamaica. Thus, the bank's organisational culture reflected a value system that encouraged and required the making of records and the bank promulgated and enforced clear rules and structures to ensure that proper documentation was made and kept. In the failed banks, where documentation was poor, it was the cultural predilection not to document coupled with an organisational absence of effective accountability for and control over the making of records that led to failures to account.³⁹ Without policies, procedures, standards and guidelines in this area or because of weak communication and enforcement of those that existed, individual motivations and cultural disincentives to record making had full play.

Influences on Record Keeping

While it may be apparent that the failure to make a record or to do so adequately prevents the giving of an account and the effective operation of accountability, it may be less obvious that the manner in which records are kept equally influences and forms an inseparable part of the meaning in records and therefore of the account giving process. The meaning in source documents and books of original entry, for example, must continue to be communicated across spatial and temporal distances in order to verify the view of organisational actions and decisions represented in derivative accounting records.

In order for source documents and other financial transaction records to be available they must be stored. Storage is both one means by which records are contextualized (that is, linked to the financial transactions that they document and to other records documenting the same transaction in order to give them meaning in relation to that transaction) and transmitted across organisational space and time. The manner of records storage, therefore, as the means of contextualizing and transmitting a record, has an impact on the record's communicated meaning. As is the case with the initial inscription of records, social and technical factors influence methods of records storage.

Turning to look at contextualization of records, significance imbues meaning and the context of records imbues significance. In other words, information revealing the relation of a document to the transaction that it documents and the organisational context and significance of that transaction gives a document meaning as a record. In a traditional paper record keeping environment, contextualization of documents entails adding them to files, in which are kept other documents relating to the same transaction or a similar group of transactions, and the placement of those files in an official record keeping system, such as a registry, according to a logical scheme of arrangement. The analytical process of developing a logical structure or system of arranging the files in records stores (ie, the development of a file classification plan) that reflects the functions and business processes of the organisation, followed by the establishment of a link between documents and the transactions they document by means of physical placement of the documents in files according to the logical

scheme of file arrangement (ie, the act of classifying documents) reveals the significance and thereby meaning of the documents as records.

In an electronic environment, the same principles apply, though the link is not established by physical placement of the documents in relation to one another but by the establishment of a logical link between the system determined physical storage location of the digital document – or component parts of the document – and relevant metadata, such as a logical classification plan mirroring the organisation's functions and processes and the significance of these functions and processes in relation to one another.

Thus, meaning is not something inherent in the record but is engendered by the social and technological mode of contextualization. It is dependent upon the manner in which the logical method of arranging documents, whether paper, digital or in some other form, represents them in relation to organisational functions and processes, or whether it does so at all. This representation will, of course, reflect individual or group assessments of the significance or use the records have for the organisation. In turn, it depends upon choices record keepers make in creating logical file structures that represent organisational functions and processes, or whether they do so at all. For example, they must make choices about how particular transactions relate to organisational functions and their significance in relation to those functions. In addition, they must decide where to place or how to link particular documents in relation to a constructed logical file structure, or whether to place or link them at all. Contextualization of the document also depends on the limitations or possibilities that

the technology of record creation and storage present for linking documents to business transactions.

If we look at the act of contextualizing the account in the failed Jamaican commercial banks, we see that, in many cases, staff at all organisational levels chose not to add documents to official records stores. There were a number of reasons why this was so related to bank employees' own perceptions and motivations as well as to the absence of organisational values and systems that might have overridden individual incentives and the limitations of the technology of record creation and storage in establishing logical links. Bank officials' approach to keeping management accounting reports produced using spreadsheet software illustrates this point.

As the environment in which the banks operated began to change to demand more of the banks in terms of asset and liability management and control over operating expenses, as already noted, they increasingly began to employ computer technology to assist them with these functions. Since the banks' existing computer systems lacked functionality required to produce the types of reports managers needed, managers tended to create and rely upon ad hoc reports using popular spreadsheet software (eg, Excel).⁴⁰ For example, a site investigation conducted for this study uncovered the fact that the Finance Department in one bank stored a number of spreadsheets on its server. The department relied on these spreadsheets for completion and control of one of its core accounting processes, the reconciliation of accounts. These spreadsheets arguably accounted for how the department performed account reconciliation and provided important evidence of that business process. As such, these electronic documents were integral to accountability.

Though many of these spreadsheets provided important evidence of decisions concerning critical bank business functions such as asset and liability management, budgeting, loan loss provisioning and the like, there were no organisational policies and procedures governing the creation and keeping of this type of record. Thus, inscribers of these documents created and kept them informally. The informal way in which these records were created and kept often led to dissolution of their meaning over time as evidence of particular financial transactions.

This problem was due partially to the limits of individuals' choice of technology in creating and keeping the records. Specifically, the spreadsheet software had no features that automatically linked spreadsheet documents within their structure and content to the financial transactions and processes for which these records had been created. Since the meaning of records derives not only from content and form but also from context, over time as memories faded the context in which individuals had created these records became more distant and the significance of the records and their meaning became more obscure, even to those who had created them. Moreover, it is possible to speculate that the records' meaning and significance often were lost completely because of the ease with which the technology used for storing spreadsheets permitted alterations and deletions of computer files, though no specific instances were cited by interview subjects.

Furthermore, in the absence of clear corporate definitions of the term records, implicit assumptions about the value of these documents determined their creators' choices about whether to add them to more permanent and stable organisational record stores,

and by doing so to elevate them to the status of official records and fix their meaning through contextualization. Jamaican bankers found themselves in the midst of a shifting documentary landscape. Financial processes and accounts that once were documented in paper form were recorded increasingly in electronic form to facilitate transaction processing and the convenient manipulation of data for reporting purposes. Most individuals working in Jamaican commercial banks, however, still conceived of a record as being something in paper form. The following statement by one interview subject illustrates this point:

Primarily when we think of records and files we think of a record . . . and a file and we know that there are other records and files. We all are aware of that but it doesn't mean that we have to let go of, you know, the record and the file. Which is why we probably would print this piece of paper rather than to send it, the message, next door [via email]. The day will come when we will stop it, printing the paper, but I can tell you as far as [name of bank] is concerned probably for about a decade now we have been talking about a paperless office etc. There is no such thing as a paperless office. Forget it. It doesn't exist. We get, you know, we improve our technology and we . . . create more paper.⁴¹

One of the most striking aspects of this statement is that the idea of the record was so integrally linked to the paper format in the subject's mind that he consistently saw paper as the only medium of "official" records.

Even subjects who were more comfortable with conceptualising of records in electronic form, such as one information technology specialist, saw legal limitations to adopting electronic documentation as official records of business transactions.⁴² Significantly, the legal constraints to which some respondents referred are less a problem than might be imagined, as under Jamaican law computer generated documents are admissible as evidence in both criminal and civil legal proceedings as

long as they satisfy certain clearly specified standards of trustworthiness. These provisions have yet to be widely tested in a court of law, however.⁴³

Vague notions about records coupled with lack of recognition of the value of these types of documents to the organisation in terms of accountability and control prevented bank officials from viewing spreadsheets and other documentation created in office productivity application software as official records and from therefore ensuring that they were added to logically organised records stores, whether electronic or manual (eg, printed out and added to a hard copy file). In hindsight, their failure to add these records to appropriate record keeping systems obscured the significance and meaning of many of these documents in relation to the transactions they documented and left gaps in the account of organisational decisions and actions.

In contrast, individuals in the failed banks generally viewed paper source documents as records. There were, therefore, policies and procedures specifying that such records should be added to organised record keeping systems. The low level of importance that management assigned to properly controlling stores of source documentation, however, generally led them to delegate this function to untrained, low level clerical staff who were ill-equipped to manage such records effectively. This was primarily because these clerical officers had received no formal training in records management principles and practices and had little to no understanding or appreciation of the record keeping requirements needed to support the banks' business functions and accountability requirements. Additionally, branch and unit managers, who saw the record keeping function as a low priority, provided little to no oversight of how well clerical staff performed their record keeping duties. As a result,

individuals charged with the oversight of records stores had little incentive to ensure that records were properly managed, even if they did identify ways in which the organisation or management of the stores under their control might be improved. In contrast, when managers saw fit to assign responsibility for a record store to experienced and trained staff, as in the case discussed above of the securities unit in one bank, organisation, indexing and hence retrieval of records was much improved.⁴⁴

Also typical of the values that underpinned the failed banks' organisational cultures was the view that paper-based records were less useful than those in electronic form and therefore that energy and resources should be directed not towards controlling the creation and keeping of paper records but towards digitisation of paper records or computerisation of all information. As one respondent noted: "Who wants to wade through the paper?"⁴⁵ Another commented that the stereotypical view of manual records is that "if you have a manual system chances are the information is not as timely as you want it. The level of accuracy might not be as good."⁴⁶ It must be emphasised that no systematic assessment of the relative value of different record stores in relation to risk management or the financial health of the banks, whether in those stores were in paper, electronic or other form, was being carried out in the failed Jamaican commercial banks. Thus, beliefs about the relative value of various types of records were unsubstantiated. These unsubstantiated beliefs had the effect of diverting attention and resources away from the management of paper records stores, which then became more and more disorganised thereby fuelling the perception that paper-based records were less useful.

The logical and physical arrangement of traditional paper records and files also impacted upon the significance and meaning of records over time for the purposes of accounting for decisions and actions in failed Jamaican commercial banks. Even when manual record stores are well structured, no single method of organisation can anticipate or satisfy all the possible ways in which users may want or need to access information. This is because different decisions and actions require different information. A particular way of ordering a store of information, which reflects underlying assumptions about the significance and meaning of records in the store, will permit users to retrieve the information from that store more readily than other ways of organising records. As an organisation's external environment changes, however new challenges may arise in response to which new decisions and actions may be required. When this is the case, records may take on new meaning and the old view of the organisation that a particular ordering of the records presents may no longer be appropriate or sufficient.

In the failed Jamaican commercial banks, for instance, one research subject described frustrations experienced while trying to retrieve information from the banks' credit files on connected party lending, which did not become an issue of significance until well into the financial crisis and, indeed, until bank regulatory authorities introduced new regulations limiting the practice.⁴⁷ Registry staff had organised the files by branch and thereafter by customer name in order to facilitate transaction processing and customer account queries; however, because the records took on new significance after the bank's failure, the existing organisation of records no longer supported managers' information requirements. Similarly, at some point during the financial crisis when the banks began to experience losses due to guarantees, managers

recognised the need to track contingent liabilities in order to control credit risk more effectively. Since managers previously had not identified these records as being significant, however, no means existed to assist them in “mining” this information from records once they saw the importance of monitoring guarantees. One interview subject explained the difficulties as follows:

But the real issue is how do you go back and identify [guarantees] that are out there that you don't know about when you have to go file by file by file . . . ⁴⁸

One remedy to this problem is indexing. Traditionally, manual or computerised indexes have provided multiple points of access to information in records stores and are an important means of overcoming the limitations posed by the physical arrangement of paper records. The creation of indexes to facilitate tracking of and access to information requires, however, that users first identify their information requirements based upon a systematic assessment of the meaning of the records in relation to their organisational information requirements and the access points that will support obtaining the required information. This was an area of weakness in the management of the failed Jamaican banks. Many of the persons interviewed for the research project made the observation that the banks' managers failed to recognise the significance of tracking their commitments and exposure levels. Commentators attribute this failure to the fact that managers – who were “old style” bankers – were not equipped to deal with the types and complexities of risks in a liberalised market. Many managers therefore failed to identify new areas of exposure and risk for their banks. Not having identified exposures and risks, they could not have foreseen the need to develop and maintain systems to monitor these risks, including the identification of information requirements and the related establishment of indexes that might have allowed them to retrieve relevant information from the banks' files.

That being said, those tasked with the management of the banks' records also contributed to the absence of either manual or computerised indexes that hampered the retrieval of relevant information. In the failed banks, as already discussed, responsibility for the management of many records stores was assigned to low-level clerical staff. For example, as previously indicated, the person in charge of the registry in which the credit files in one of the banks were kept was untrained in record keeping principles and techniques. Neither had this person received any training in the basics of credit administration. Thus, this clerical officer had little capacity to appreciate the significance of information in this record store and the retrieval requirements of the bank's credit administrators and risk analysts. Even assuming this level of understanding, this individual had little if any understanding of the value of, and techniques for, creating indexes to support managers' information requirements.

Of course, ultimate responsibility for the problem lay with the banks' managers as they made the decisions about who to assign to manage their records. The fact that in many cases they assigned low-level, untrained clerical staff to manage these stores reflects the generally low level of importance that managers assigned to most classes of paper records and the function of keeping such records, as well as their lack of appreciation and understanding for record keeping as a discipline comprised of specialised techniques and methods in which those with responsibility for records in their banks should have received training.

Ironically, the absence of appropriate indexes to paper records stores further fuelled managers' perception of paper records as being less efficient than those in computer form. This has led the banks' managers to focus on computerised information and imaging systems as solutions to information retrieval problems. Many managers assumed, and still do, that once an information store is converted to electronic form, information retrieval difficulties will disappear, as for example in this exchange with one interview subject:

Researcher: [The information] was there but [the retrieval system] wasn't functioning as it should . . .

Subject: Because of too much paper. A lot of it is based on a document, written rather than a process that is automated. That you can actually go and automate . . . It is written down but it is not automated.⁴⁹

While computerisation of records stores does facilitate faster retrieval of information and, in many cases, easier "re-presentation" of information in records stores, as with manual stores, if the requirements for particular access points are not identified at early stages of system acquisition or development and continually reviewed in light of a changing business environment, the resulting system will in all probability lack the required fields, structures or functionality to permit the desired view of the organisation. Thus, computerisation does not automatically make the retrieval of relevant information any easier, as illustrated by interview subjects who complained of the lack of "reporting functionality" in the banks' core accounting systems and the difficulties of getting information technology specialists to make requested system changes so that useful presentations of data could be retrieved.

Conclusion

Many commentators on the collapse of the Jamaican commercial banks have attributed the failed banks' problems, including poor record keeping, to sharp practice. In this chapter, an alternative explanation was presented. Though sharp practice was a factor in how individuals within the failed banks created and kept records and thus the poor quality of the banks' accounting and management information, the self-dealing motivations that underlay sharp practice were just one of many values, beliefs and norms that influenced how individuals within these financial institutions created and kept records. These diverse value systems, often unconsciously held and deeply rooted in the psyche of individual or groups of record creators and keepers, influenced bank officers to make choices about inscribing, transmitting and contextualizing records in the production of accounts of the banks financial transactions. In the aftermath of the banks' collapses, it is possible to see how these choices often undermined the production of the quality of accounting and management information required to sustain effective internal accountability and control. This was by no means always the intention of individual record creators and keepers, though obviously in the case of those involved in sharp practice it was deliberate. More often, the resultant poor quality recorded information arose because directors, managers and officers of the failed Jamaican commercial banks were unaware of the overall effects of their record making and keeping choices. From this perspective, the failed Jamaican commercial banks did suffer from a management failure. However, this was not only a failure on the part of the bank's management to identify and effectively manage typical banking risks, as is commonly supposed, but also a failure to systematically assess the quality of accounting and management

information required to sustain effective internal control and decision making and then to establish and ensure widespread acceptance of a set of shared organisational values, beliefs and norms of behaviour that would have encouraged or constrained individuals to create and keep records in such a way as to produce the necessary quality of information. This was a failure that management in the collapsed banks could not redress simply by reorganising either their reporting relationships or their records stores, as revealed by the example of the failed bank that sought to solve credit information deficiencies through first decentralising and later re-centralising its credit related records stores. Nor could the problem be solved by introducing computer technology, as exemplified in the difficulties the banks continued to experience in obtaining and retrieving relevant, good quality management information long after the introduction of computerised information systems. It was a failure that the banks could only have redressed by establishing sound systems of internal accountability and control for the processes of record creation and keeping within their financial institutions. That the banks failed to pursue this strategy and instead focused on restructuring record stores and computerisation to solve information problems reflects how managers' preconceived ideas about records and records management often prevented them from fully appreciating the causes of information problems and therefore devising and implementing solutions and strategies that may have been more effective.

End Notes

¹ See, for example, subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999, subject F-1, personal interview, Kingston, Jamaica, 9 May, 2000 and subject F-2, personal interview, Kingston, Jamaica, 9 May, 2000.

² See, for example, Government of Jamaica, Ministry of Finance and Planning, "Public Sector Response to the Problems of the Financial Sector," Ministry Paper No. 13/98, 8 April, 1999; "BOJ

Governor Keynote Speaker at JIOB Awards Luncheon,” *JIOB News* (May 1999): 1+; Omar Davies, “Introductory Statements” Symposium on the Crisis of the Jamaican Financial Services Sector. University of the West Indies, Kingston, Jamaica, 27 November, 1999, author’s transcription of taped proceedings; see Dennis Boothe, “Case Study of Selected Financial Institutions,” Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author’s transcription of taped proceedings and other presenters at the same symposium.

³ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.

⁴ Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.

⁵ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.

⁶ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999, subject F-1, personal interview, Kingston, Jamaica, 9 May, 2000 and subject F-2, personal interview, Kingston, Jamaica, 9 May, 2000.

⁷ Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.

⁸ See on this point subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999; subject A-12, personal interview, Kingston, Jamaica, 6 July, 1999; and subject A-15, personal interview, Kingston, Jamaica, 22 July, 1999.

⁹ Subject A-12, personal interview, Kingston, Jamaica, 6 July, 1999.

¹⁰ Bank D, “Centralized Securities: Legal/Credit Administration Division,” photocopied report, January 19, 1994.

¹¹ Subject A-15, personal interview, Kingston, Jamaica, 22 July, 1999.

¹² Ibid. This subject points out that files did have a tendency to go missing from the credit files registry.

¹³ Subject A-15, personal interview, Kingston, Jamaica, 22 July, 1999. Unfortunately, the researcher was not able to gain access to the actual credit administration manual to review the contents of the policy provisions referred to by the interview subject.

¹⁴ All interview subjects were asked about the educational background and experience (see list of interview questions in Appendix 1). Thirteen out of sixteen interview subjects working for the failed Jamaican commercial banks came from either a business or accounting background.

¹⁵ Frank Wood and Alan Sangster, *Business Accounting 1*, 8th ed., (London: Financial Times Professional Ltd., 1999).

¹⁶ For example, interview subject A-2, personal interview, Kingston, Jamaica, 19 May, 1999. This was also evident in subjects’ responses to questions about their formal education and experience (see list of interview questions in Appendix 1).

¹⁷ For example, in one of the newer banks, lack of order in the arrangement of records obtained despite the fact that the bank had established a policy and procedures that specified how records should be filed. The policy document read:

In order to ensure that original records can be produced to satisfy legal requirements, and to facilitate retrieval for confirmation of past transactions, all vouchers, correspondence, forms and other documents which comprise the records of branches, Data Centre and General Manager’s Office must be filed carefully and in prescribed sequence in accordance with each class of records, i.e. retention period [Bank C, Records Management Guidelines, 9 May, 1996].

This is the very bank in which, as described in the previous chapter, respondents found that employees simply had dumped records, together with other office “junk” in boxes destined for off-site storage. Numerous similar examples of policy and procedural breaches in all of the failed banks can be cited

¹⁸ Subject A-17, personal interview, Kingston, Jamaica, 2 August, 1999.

¹⁹ Subject C-1, personal interview, Kingston Jamaica, 14 September, 1999 and subjects C-5 and C-6, personal interview, Kingston Jamaica, 5 October, 1999.

²⁰ Subject C-5, personal interview, Kingston, Jamaica, 14 September, 1999.

²¹ Subject C-7, personal interview, Kingston, Jamaica, 6 October, 1999.

²² See, for example, subjects C-5 and C-6, personal interview, Kingston Jamaica, 5 October, 1999; Subject C-7, personal interview, Kingston, Jamaica, 6 October, 1999 and subject C-2, personal interview, Kingston, Jamaica, 29 September, 1999.

²³ Subject C-1, personal interview, Kingston Jamaica, 14 September, 1999 and subjects C-5 and C-6, personal interview, Kingston Jamaica, 5 October, 1999 and subjects C-5 and C-6, personal interview, Kingston Jamaica, 5 October, 1999.

²⁴ Ibid.

²⁵ See, for example, Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999 and subject A-17, personal interview, Kingston, Jamaica, 2 August, 1999.

²⁶ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999

²⁷ Subject, A-5, personal interview, Kingston, Jamaica, 1 June, 1999.

²⁸ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.

²⁹ Ibid.

³⁰ Subject A-2, personal interview, Kingston, Jamaica, 19 May, 1999

³¹ Ibid.

³² Subject A-10, personal interview, Kingston, Jamaica, 17 June, 1999

³³ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.

³⁴ Subject A-10, personal interview, Kingston, Jamaica, 17 June, 1999.

³⁵ Subject A-2, personal interview, Kingston Jamaica, 19 May, 1999.

³⁶ Davies *passim*.

³⁷ Ibid.

³⁸ Subject A-18, personal interview, Kingston, Jamaica, 3 August, 1999. See also the interview with subject A-14, personal interview, Kingston, Jamaica, 22 July, 1999.

³⁹ In support of this argument, see subject A-14, personal interview, Kingston, Jamaica, 22 July, 1999.

⁴⁰ Subject B-3, personal interview, Kingston, Jamaica, 25 June, 1999; Subject B-6, personal interview. Kingston, Jamaica, 13 July, 1999.

⁴¹ Subject C-5, personal interview, Kingston, Jamaica, 5 October, 1999.

⁴² Subject A-13, personal interview, Kingston, Jamaica, 9 July, 1999.

⁴³ Laws of Jamaica, An Act to Amend the Evidence Act. L.N. 12-1995. There is only one case of which I am aware focusing on the legal admissibility of computer-generated bank records, that is, Zachary Sheriffe v. NCB. The case is unreported, so no reference can be given.

⁴⁴ Subject A-12, personal interview, Kingston, Jamaica, 6 July, 1999.

⁴⁵ Subject C-4, personal interview, Kingston, Jamaica, 30 September, 1999.

⁴⁶ Subject A-7, personal interview, Kingston, Jamaica, 10 June, 1999.

⁴⁷ Ibid.

⁴⁸ Subject A-16, personal interview, Kingston, Jamaica, 30 July, 1999.

⁴⁹ Subject A-2, personal interview, Kingston, Jamaica, 19 May, 1999.

Chapter Nine: Record Keeping in Failed Jamaican Commercial Banks - Its Impact on the Effectiveness of Bank Supervision, Intervention and Rehabilitation

Introduction

The previous chapters explored the impact of the failed Jamaican commercial banks' records creation and keeping on their ability to produce trustworthy and timely accounts of financial transactions for the banks' own internal purposes, that is, to produce them in support of effective operation of systems of internal accountability. The banks relied upon these systems to control banking operations, assess and manage risk exposures, monitor the banks' financial positions and prevent fraud. The discussion illustrated how the banks' records creation and keeping practices undermined internal accountability and control and decision making and how this, in turn, undermined the banks' competitive viability.

This chapter looks at the implications of the banks' records creation and keeping for external agencies involved in banking supervision, and after the bank failures, intervention and rehabilitation of the failed banks. The discussion begins with an

exploration of the effects of the banks' record creation and keeping upon supervisory efforts. It then discusses the government intervention that took place in the aftermath of the bank collapses and the implications of the banks' record creation and keeping upon intervention and subsequent rehabilitation initiatives.

In addition to the empirical data discussed in the previous two chapters, the findings presented in this chapter draw upon information supplied by the Bank of Jamaica and interviews conducted with the Financial Sector Adjustment Company (FINSAC) Limited forensic auditors. Although the research plan had included conducting interviews with Bank of Jamaica supervisory authorities, this proved to be impossible. After two years of making requests to the Bank for interviews with key supervisory staff, the researcher was advised that the request for interviews could not be granted because of the supervisory division's "heavy workload and extremely tight schedules/deadlines."¹ Instead, the Bank subsequently agreed to respond in writing to a list of questions (see Appendix 1). The Bank did not answer a number of questions related to specific banks "due to confidentiality and other legal and professional constraints."² One is inclined to surmise that the Bank's reluctance to release performance data on individual failed banks is at least in part due to the fact that the data would also be very revealing on the subject of the Bank's own supervisory performance. In light of the Bank of Jamaica's refusal to release certain information, the discussion in this chapter is not as comprehensive as it might have been. Nevertheless, the research data are sufficient to make a number of observations about the relationship between record keeping and Bank of Jamaica supervision of the failed banks.

Weaknesses in Effective Supervision of Jamaican Commercial Banks

The reasons for banking supervision were discussed in chapter five and a number of factors with the potential to undermine effective banking regulation discussed. To reiterate, these factors include: a weak regulatory framework, government interference in the operation of bank supervision, and a weak or ineffective supervisory authority. As discussed in chapter six, many commentators on the Jamaican financial crisis see these factors as having contributed in one way or another to ineffective regulation of the Jamaican financial sector and the eventual collapse of several Jamaican commercial banks. Government interference, for example, is cited as having been an issue, in particular with respect to the independence of the Bank of Jamaica.³ In addition, many commentators argue that the Bank of Jamaica supervisory division did not have the capacity to supervise the sector effectively. The Bank had too few staff to monitor a growing banking sector and also lacked staff with the technical competency to monitor increasingly complex corporate conglomerates.⁴ Finally, commentators and analysts also point to shortcomings of the legislative framework for the supervision of Jamaican banks as having been problematic.⁵

It is beyond the scope of this study to assess the degree of impact that the above-noted factors had on the efficacy of banking supervision and, by extension, the effect of the quality of banking supervision on the health of individual banks and the entire Jamaican financial sector. Suffice it to say that all of these factors contributed to problems with effective supervision of the banking sector. That being said, there is still another factor that cannot be overlooked in assessing the

effectiveness of the bank supervisory authorities, that is, the quality of information that was available to them.

Information is critical to effective banking supervision because of the agency problem. As discussed in chapter three, agency theory, which essentially draws upon Hegel's and John Stuart Mill's philosophical ideas, holds that in a relationship between a principal and an agent, the agent will take advantage of the principal unless the principal is fully informed.⁶ The theory of agency suggests that principals need full and complete information about the actions of agents. That is to say, the actions of agents must be "transparent" to the principal. This is the case whether the agent is a government banking supervisory authority, as when there is legislative regulation of an industry, or corporate shareholders, as when market discipline is used to regulate a sector. Without such information, the principal is unable to assess the performance of the agent and to hold that agent accountable for adhering to accepted standards. In reference to banking, society requires that bankers conduct their business according to certain standards in the best interests of depositors and overall economic and social well-being. Banking supervisors act to hold bankers accountable for adhering to these standards. Effective banking supervision, however, is dependent upon the supervisor's access to good quality information about bankers' activities. The Jamaican supervisory authorities were no different in this regard.

The Relationship between Bank of Jamaica Supervisory Practices and Failed Bank Record Keeping

According to information provided to this researcher from the Bank of Jamaica, the stated purpose behind the Bank of Jamaica's supervision of commercial banks and other deposit-taking financial institutions is to: 1) promote their safety and soundness so as to protect the confidence in, and integrity of, the banking system and 2) promote an efficient and effective banking system that finances economic growth, allocates credit and meets the needs of customers and the community at large.⁷ Towards realising these objectives, the Bank assesses how much risk each bank is undertaking; the resources available to manage these risks, such as capital, internal control systems, and management experience and competence; and whether the identified level of resources is sufficient to manage the risks. The Bank's supervisory activities include: ensuring compliance with all applicable laws and regulations; enforcing guidelines and performance standards; providing guidance through promulgation of best practice standards; verifying and assessing the quality of activities through at least annual on-site examinations and ongoing off-site monitoring; and seeking to achieve as much disclosure as possible. The Bank maintains that, "Although regulations and guidelines are important, the cornerstone to the bank supervisory process is through on-site examinations conducted annually, along with off-site surveillance on an ongoing basis."⁸ Thus, the efficacy of the Bank's supervisory programme is highly dependent on the availability of trustworthy and timely information as the basis of holding bankers to account for their banking operations.

According to the Bank, “Off-site supervision provides an important complement to on-site examinations by providing early warnings to actual or potential problems, and a means of assessing broader patterns and trends within the systems as a whole.”⁹ A review of Bank of Jamaica annual reports indicates that from at least 1987, the bank was taking this approach.¹⁰ The off-site inspection process involves collecting data and verification checks; data analysis; reporting findings to the Governor of the Bank of Jamaica and the Minister of Finance; making recommendations on corrective action and monitoring of corrective action.

Data are obtained from a variety of sources, the primary one being regular (ie, weekly, monthly, quarterly and annual) prudential returns. The particular data the Bank of Jamaica supervisory authorities require the banks to supply have varied over time. In 1988, according to the Bank’s annual report, it required the following: the reporting of loans, advances and discounts, accounts receivable, investments and fixed assets, net provisions for losses and depreciation; the reporting of all forms of credit extensions, including leasing business under one category “Loans, Advances and Discounts;” the reporting of total liquid holdings in the absence of statutory liquid assets requirements; monthly reporting of delinquent and non-performing loans; and more detailed reporting of contingent accounts and other off-balance sheet business. In the 1992 Banking Act, the Bank of Jamaica stipulated that banks submit the following returns: monthly statements of assets and liabilities; non-performing loans; renegotiated loans amounting to a certain percentage of the bank’s capital base; and analyses of customers’ liabilities with the bank in respect to bills discounted, loans and advances as well as annual statements of income and expenses for the year; all debts payable in Jamaica and

elsewhere; outstanding unpaid cheques, drafts, and bills of exchange; all dividends remaining unpaid in excess of five years; and land acquired by the bank in the satisfaction of debts.¹¹

As of 1996 an enhanced set of financial returns was required. These included more detailed reporting on certain critical areas of bank operations such as: foreign currency transactions, non-performing and renegotiated loans, connected party exposures, and connected party credit breaches.¹² At November 2000, the types of reports required by the Bank and specified in the financial legislation included: balance sheets; details on contingent and prospective liabilities; details on passed due loans; sectoral distribution of loans and advances; and quarterly and annual statements of earnings and expenditure. The law also currently allows the Minister of Finance to prescribe additional returns in order to provide more detailed information on certain balance sheet items. At the time of writing, banks were expected to supply information relating to cash reserve and liquid asset returns (domestic and foreign); maturity profile of assets and liabilities; distribution of assets by maturity; foreign currency assets and liabilities; update on breaches of credit and investment limits; renegotiated credits; connected persons exposure; and interest rates payable on deposits and loans. Other than the returns, data currently are obtained from findings of on-site examinations; correspondence with the banks; audited financial statements; media reports; and various local and international publications.¹³

As noted in a Ministry of Finance and Planning paper, written in the aftermath of the financial sector collapse, and in the 1996 Bank of Jamaica annual report, many

of the returns submitted to the Bank of Jamaica immediately before and during the financial sector crisis were not done so on a timely basis and were unreliable.¹⁴

The fact that as of 1997 the Bank of Jamaica required that quarterly balance sheet data supplied by banks now had to be certified as presenting a true and fair view of the state of banks' operations at the respective reporting dates in addition to the customary monthly declaration of accuracy of prudential data submitted to the Bank provides some indication of what the Bank supervisory authorities thought of the data being supplied by the banks. Again, to ensure better quality financial returns, the Bank stipulated that, where a licensee's audited financial statement significantly differs from earlier data submitted to the bank, licensees were now required to provide detailed notation indicating the nature of the discrepancy and the reasons.¹⁵

As noted in previous chapters, there has been a tendency in the public debate surrounding the problems experienced in Jamaica's financial sector to lay blame for the untrustworthiness of the bank's financial reports at the door of the bank's external auditors or to attribute the problem to the "creative accounting" practices of Jamaican bankers.¹⁶ No less than the former Governor of the Bank of Jamaica publicly stated that the failed banks' problems stemmed, among other things, from creative accounting, particularly with respect to asset valuation and income recognition and that their auditors let them get away with these practices.¹⁷

However, as is evident from the results of the field research data presented in chapters seven and eight, while both of these factors contributed to the unreliability of the bank's financial accounting reports, the manner in which the banks' accounts were produced resulted in often unintentional distortions and

omissions in accounts of their financial positions and risks. These unintentional distortions and omissions were the result of largely uncontrolled record creation and keeping practices in the banks which allowed individuals within the banks to inscribe, transmit and contextualize records in accordance with their own motivations and standards. In conjunction with limitations of the technologies chosen for record inscription, transmission and contextualization, these unchecked record creation and keeping behaviours led to a level of capriciousness in the formation of views of the banks' financial transactions as presented in their accounts.

Based on the field research, it is possible to surmise that the poor quality of financial information supplied by the banks must have made it very difficult for the supervisory authorities to obtain a clear picture of the banks' financial positions and risk exposures. Given the unreliability of the supplied data it is questionable whether bank supervisors always had a full appreciation of the degree of difficulty some of these banks were facing.

This must be viewed as a serious shortcoming in the Jamaican bank regulatory system since, as the Director of Research at the Central Bank of Nigeria M. Ojo explains, in a system of indirect instruments of monetary and credit control (ie, which relies on market-based instruments such as cash reserve and liquidity ratio requirements and open market operations to regulate the monetary base and therefore the banks' money creation capability), there is a need for prompt availability of reliable data on the liquidity position of banks.¹⁸ As the Jamaican system matches the type of system that Ojo describes, the importance of reliable

and prompt liquidity information from the banks is clear. Ojo goes on to note that “Furthermore, one would expect that, since the effective use of instruments of indirect monetary and credit control would require prompt supply of reliable data from banks, bank executives must have to ensure that the accounts of their banks are balanced properly.”¹⁹ As the field research revealed, the banks’ accounts were not properly balanced and the banks could not obtain timely and reliable balance sheet information. Moreover, they lacked clear and timely information related to their cash positions. Given what is known about the quality of the accounting and management information that was available to the failed banks’ directors and managers, one can only form a very gloomy picture of the quality of the information that the banks were supplying to the Bank of Jamaica and, by extension, of the impact of poor quality financial information on the efficacy of bank supervision and regulation.

Even in the best cases of financial reporting, which was certainly not the situation that obtained in the failed Jamaican commercial banks, as Chris Barltrop and Diana McNaughton observe, the published financial statements of a bank should be treated with scepticism because it is not in the interests of a bank to disclose information. Barltrop and McNaughton maintain that banks will always use accounting practices creatively to cast a favourable light on their profitability. For this reason, they insist that inspection of the veracity of financial reporting is essential.²⁰ Barltrop’s and McNaughton’s assertions are supported by banking expert Gerald Corrigan who, in respect of assessing and managing credit risk exposures, argues that while banks and banking supervisors need new and forward looking loan classification schemes, this can only be implemented by a loan by

loan review.²¹ In Corrigan's opinion, "On the supervisory side, only effective, on-site examination can provide reasonable assurance that the loan classification process and the system of reserves and provisions are working satisfactorily."²²

As stated by the Bank of Jamaica in its response to questions posed by the researcher, on-site examinations conducted by Bank supervisory staff involved the collection of "on-the-spot" information indicating the current financial condition of a bank and the situation obtaining in its various operational areas and portfolios, verification of financial data already furnished to the Bank of Jamaica in the form of financial returns, as well as review of a bank's compliance with laws, regulations and standards of best practice. The goal of such reviews is to evaluate the bank's overall exposure to risk by uncovering possible areas of capital inadequacy; credit and investment risks and poor asset quality; poor quality board, management and internal controls; weak earnings; and insufficient liquidity. In doing so, the Bank uses the "CAMEL system" of evaluation.²³ This system includes reviewing five aspects of a bank's operations with an emphasis on internal control; these are:

- Capital adequacy – ratings are based not only on a bank's capital relative to the capital of other banks, but also on the riskiness of bank assets, prospects for growth, management strength, and the ability to augment capital through earnings retention.

- Asset quality – ratings are determined by such considerations as the volume of and severity of classified assets, asset yields relative to market rates and risks, diversification of asset risks, and the bank's lending and investment policies.

- Management – ratings are assessed according to banking knowledge and experience, proficiency in setting and following internal policies, ability to follow regulations and statutes, the avoidance of self-dealing, and service to the community in general.

-Earnings – ratings include consideration of factors such as the overall level of earnings compared with other banks, the composition of such earnings, such as whether income is largely accrued or actually realised, whether the bulk of income is extraordinary income, for example gain on disposal of an asset or proceeds from the sale of an insurance claim, and the adequacy of such earnings in supplying internal capital and meeting possible losses.

-Liquidity – rated according to the maturity structure of the bank assets, stability of deposits and access to additional funding.

In their response to the researcher's questions, Bank of Jamaica officials noted that the Bank's on-site assessments currently concentrate on the credit and investments portfolios, both being areas where the highest risk of loss is encountered. However, greater focus also is being placed on the quality and adequacy of risk management systems in key areas of operations such as capital adequacy; asset portfolio management; earnings; liquidity; internal controls, and overall management. The Bank also notes that, with growth in the number of financial conglomerates and banks that form part of corporate groupings, and the resulting increase in the risk of financial losses or damaged reputation due to the "contagion" effect, relevant information about related non-bank companies is also required on a regular basis.²⁴

Unfortunately, no precise information was forthcoming from the Bank as to whether it concentrated on-site assessments on the credit and investments portfolios immediately before and during the period of the financial crisis (roughly 1992-1998), though the 1992 Bank of Jamaica annual report does make particular reference to capital adequacy; asset quality; management expertise; earnings; and liquidity as being focal points of the activities of its inspection staff.²⁵ Nevertheless, it is difficult to say with exactitude what information the

Bank's supervisory staff may have been looking for during on-site investigations throughout this period. This is because the focus of the Bank's inspection programme differed slightly for each bank so that the Bank's supervisory staff looked for specific and different information during each bank's on-site examinations. For the sake of argument, this discussion will assume that the Bank's supervisory inspections concentrated on credit and investment during the period that is the focus of this study.

In terms of other areas of attention, the Bank of Jamaica's response to questions from the researcher suggests that supervisory attention to the quality and adequacy of risk management systems in respect to capital adequacy, portfolio management, and related non-bank companies is relatively new and therefore it is assumed that the Bank's supervisory staff did not pay close attention to evaluating these systems during on-site examinations from 1992-1997. Since the 1997 amendment to the Banking Act required additional reporting on connected party relationships, Bank supervisory staff may have turned some attention to assessing connected party risks during their on-site examinations from 1997 onwards.

The Bank's written response to the researcher's questions indicates that its on-site examinations entail a number of phases. During the planning phase, supervisory division officials determine the scope of the examination, the extent of testing and verification to be done, the human resources needed to complete the inspection and other factors. At this point, the relevant Bank staff review a number of records in their custody, including directors' and committee minutes; previous inspection reports or any special reports; memoranda and working papers related

to earlier examinations; and the latest Comprehensive Financial and other returns. During the planning phase, the examiners also make a formal request for records and other information that the bank should have available for examiners on arrival. These records might include: a compilation of policy directives; procedures manuals; balance sheet and income statement; credit files; management information reports; and internal and external audit reports.

The second phase of the examination is the actual on-site inspection. This phase is led by an examiner in charge of a team leader who is responsible for developing the main focus points for the team. The review proceeds on the basis of evaluating selected areas of the bank's operations.

The final phase of the on-site examination involves reporting the results. This entails the completion of a written report outlining the findings and, where necessary, stating required corrective action and the time lines for completion. This report is sent to the board of directors of the bank. In extreme situations, where serious problems exist, the bank's board of directors and executive management are put under an "undertaking" to correct deficiencies. This represents a legal obligation on the parties concerned to take required action. The bank's board and management also are required to issue a formal response to the report on the examination within a specified time frame.

Assuming that the focus of on-site inspections preceding and during the bank collapses was on credit and investments and given the types of records that the Bank's examiners generally request, the state of the commercial banks' record

keeping in these areas should have given Bank of Jamaica supervisory authorities cause for concern. Here again, whether they encountered any difficulties in obtaining the information they sought or what their reaction was to the quality of the information that was available to them must be left to speculation, as no comment was forthcoming from the Bank. Nevertheless, it is possible to conclude that supervisory authorities should have been alarmed at the state of the records. Given what is known from the field research about record keeping with respect to the failed banks' policies and procedures, it must have proven difficult for bank staff to supply supervisory authorities with a complete and accurate version of operating rules. Assuming the bank being inspected was able to pull together a policy and procedures manual from disparate sources, if the supervisory authorities had taken the time to compare the supplied information with what was available to branch or operating staff, they would surely have found that the documentation differed. Supervisory staff should also have been concerned that the banks were not able to supply up-to-date balance sheets and income statements on a timely basis, but only rough estimates.²⁶ Moreover, they might also have been sceptical of the management information reports they received, generated as they were in an ad hoc manner using standalone spreadsheet packages. The disorder of the failed bank's credit files and incompleteness of their securities files should have indicated to the supervisory authorities that there were problems with the banks' records and information. As such, they should have concluded that accounts and financial returns related to the quality of the banks' loan portfolio coming from such disorganised and incomplete records must be treated with suspicion and that, given a high number of non-performing loans, the banks were going to run into trouble recovering their losses in the absence of proper evidence

of collateral.²⁷ As observed by Gerald Corrigan, in cases where banks are unable to present supervisors with loan files or information about them, this in itself can be used as an early warning signal that the bank is not effectively monitoring its credit systems, policies, and procedures and that its loan classification may be erroneous.²⁸ At the very least, the state of the credit related records should have caused the supervisory authorities to question the banks' internal control systems. It is possible to draw similar conclusions respecting the investment area, where documentation of investment transactions was also incomplete.²⁹ Supervisory authorities might also have been concerned about the observations of one of the bank's own internal audit units, which noted that improper documentation, in combination with other problems, was leading to losses in the treasury and foreign exchange trading operations.³⁰ In short, the state of the bank's records should have served as an early warning sign for the Bank of Jamaica supervisory authorities of the banks' operating problems.

As the above discussion indicates, the absence of trustworthy and timely information from several Jamaican commercial banks very likely hampered the Bank of Jamaica's efforts to monitor the sector and should have given early indications that the banks were experiencing serious problems. It is evident from Bank of Jamaica annual reports that as early as 1994, despite the poor quality of financial returns bank supervisory authorities were receiving from some of the banks, that the Bank was aware of problems in a number of the financial institutions. The Bank's report for that year notes that unnamed institutions went on a "watch list" to be closely monitored due to breaches in statutory requirements for capital adequacy and liquidity and that there were also breaches of statutory

credit exposure limits and capital adequacy as a result of the 1992 legislative requirements.³¹ This suggests that the absence of trustworthy and timely information cannot, in itself, account for the manner in which the supervisory authorities responded during the Jamaican financial crisis. Such information related problems should have raised alarms with supervisory authorities that the banks' management were not in control of their portfolios, management reports, and assets. Thus, other factors, such as regulatory forbearance or the absence of strong regulatory sanctions, may also explain the Bank of Jamaica's inaction. Notwithstanding, it is possible to infer from the field research data that the quality of information available to the supervisory authorities did hamper their efforts to regulate the sector properly and should, at least, have alerted them that all was not right with Jamaica's domestic commercial banks.

The Aftermath of the Financial Sector Collapse – The Relationship between FINSAC Intervention and Rehabilitation and Record Keeping in the Failed Jamaican Commercial Banks

As previously mentioned in chapter six, the Government of Jamaica established the Financial Sector Adjustment Company (FINSAC) Limited in January 1997 to intervene in the ailing Jamaican financial sector. Upon its formation, FINSAC embarked on a three-phased course of action: intervention, rehabilitation and divestment. The intervention phase required FINSAC to infuse additional capital into the failed banks in exchange for equity and board seats. This phase, which was largely completed by April 1998, left FINSAC with equity and/or board seats in four of the island's nine commercial banks.³² FINSAC's first phase also aimed at ending what it described as the "unhealthy pattern" of common ownership and

control and connected party lending between Jamaica's banks and insurance companies.³³

The objective of FINSAC's second phase was the rationalisation and reorganisation of the entities in which it had intervened. Its goal was to sustain depositor and policyholder confidence in the country's banking and insurance sectors. When FINSAC initiated this phase, it recognised that it was necessary in order to build greater confidence, greater transparency and improve the capability of financial institutions to assess market conditions and make appropriate decisions. This entailed requiring the banks to strengthen their credit evaluation systems and loan portfolio management, and to implement improved accounting controls. As part of the rehabilitation plan, FINSAC also purchased non-performing loans from banks receiving assistance.³⁴ With purchase of the loans, FINSAC assumed responsibility for monitoring these non-performing portfolios.³⁵

The final phase of the FINSAC action plan involved divestment of FINSAC assets to private hands. At the time of writing, this phase is ongoing and entails seeking potential purchasers for its bank and insurance company holdings and certain collateral assets. At 30 June, 1999, FINSAC had completed the sale of \$J2.6 billion (\$US65 million) worth of assets such as motor vehicles, art work, furniture and equipment, properties, hotels, resorts and company shares.³⁶ In March 2001, the sale of the four collapsed banks that were merged to form Union bank went through.³⁷ FINSAC aims to complete this phase of its operations by 2005.³⁸

Upon intervention in the failed financial entities, FINSAC immediately had to undertake a “due diligence” exercise to review the accuracy of the banks’ financial statements so as to determine the total extent of the entities’ holdings and the net present value of all assets and the entities as a whole.³⁹ The information gathered during the due diligence exercise was extremely important from the standpoint that it was on this basis that international consultants McKinsey and Company and FINSAC officials together made decisions about whether to immediately liquidate certain holdings or rehabilitate and later merge or divest them.⁴⁰ As one FINSAC official observed, “. . . when you make some decisions like that you have to be so right because it impacts the entire company . . .”⁴¹ The decision not only impacted the entire company, but the economic and social welfare of the entire country, since with intervention in the failed Jamaican financial entities FINSAC had come to own 60 percent of all the country’s banking assets.

The process of due diligence, as explained by one FINSAC official, included an overall net present value and cash flow analysis to determine which strategy would be better to pursue with respect to the failed banks: liquidation, merger and rehabilitation, or rehabilitation of each entity and sale.⁴² As part of this analysis, FINSAC officials had to develop an ongoing cash flow model to simulate the merger and rehabilitation. The results of the analysis indicated that merger and rehabilitation was a slightly better option. As explained by a FINSAC official, “. . . going with the merger and rehabilitation was less of a loss [net present value]-wise than the liquidation option.”⁴³

Clearly, given the importance of these decisions it was necessary that FINSAC officials have access to reliable information on which to base their analyses and decision-making. When asked about the quality of data to which they had access, one FINSAC official commented that, “Quite frankly, the information available to us was awful. It really was awful.”⁴⁴ One interview subject explained that because the quality of the data was poor, FINSAC officials had to review it line by line and try to access supporting data about assets and liabilities. This entailed searching in boxes or files to verify information in the banks’ financial statements. In some cases the information was not complete. As one subject noted, they experienced difficulties tracing transactions because these transactions had not been properly documented. For example, in the case of inter-company transactions, the amount of the transfer might have been given but the instructions on and origination of the transfer were not clear. This subject also stated that there were problems in verifying information because systems were mostly manual and some schedules were on Excel. This official further observed that verification of information was difficult because the banks’ filing structure had broken down. Within one year information was getting “turned over” and placed in boxes, which for the most part were not properly labelled and from which retrieval was difficult if not impossible. As a result, information on a correspondent account from two or three years back could not be found.⁴⁵

Owing to difficulties experienced with verifying the banks’ financial information, in some cases FINSAC officials had to undertake a time-consuming and costly exercise to gather the quality of information needed to undertake proper analysis.

In relation to decisions about what to do with the failed Jamaican commercial banks, this entailed forming,

. . . templates that we needed to input and we mandated all the different institutions try and fill out these templates. At best we also had to go on what was in there. We did an awful lot of research in terms of some of the larger accounts. We ordered the statements and things like that in terms of looking and then we did an analysis of what we should write off in terms of assets . . . We certainly tried to go through the major items and make some form of account for that.⁴⁶

This interviewee noted that, in some cases, the work of collecting reliable information involved a manual process of collecting data to enter into the templates from individual bank branches.⁴⁷

In addition to gathering reliable financial information, FINSAC officials also had to unravel the complex corporate structures of the collapsed banks. Financial conglomerates in Jamaica had an extremely complicated and intricate ownership structure. In some instances, it took FINSAC officials a substantial amount of time to uncover all the links between connected institutions in order to assess the true extent of the financial support needed for these institutions. This was due to the fact that information about obligations to connected parties was extremely difficult to locate. One interview subject stated quite plainly that the failed financial conglomerates actually had no accurate idea about even the number of subsidiary companies they actually owned.⁴⁸ He also remarked that these companies had no central repository for the legal documentation on their subsidiary companies and that there were no minutes or board records available. The poor state of record keeping on subsidiary companies and connected parties in

the failed banks created a need to identify all subsidiaries and connected parties and to uncover the extent and amount of the banks' obligations to these entities. Each new discovery about a connected party as FINSAC officials sifted through the available documentation tended to lead to an increase in the total assistance package to the failed banks. The continual upward shift in the figures did nothing to reassure the Jamaican public that FINSAC knew what it was doing and had the financial crisis under control.

The additional work sorting out the failed banks' accounts and connected party relationships added to the overall cost of resolving the financial crisis in Jamaica. FINCAC debt as of July 2000 stood at \$J127 billion (\$US 3.1 million), making the Jamaican bank failure resolution exercise one of the most expensive to date.

In the final analysis, FINSAC simply had to make its decisions about the best way to deal with the financial crisis on the basis of the best information it could put together in the available time. As one interviewee commented, "My satisfaction with the numbers will never be as good unless I know that it has come from a solid database where everything is reconciled."⁴⁹ Lingering questions about the quality of the information used in the decision-making process cannot but leave some doubt about whether FINSAC's decision to merge and divest the failed banks was really the best course of action.

As part of the rehabilitation process, FINSAC purchased non-performing loan portfolios from three banks – \$J12.7 billion (\$US317 million) from National Commercial Bank, \$J800.9 million (\$US20 million) from NCB Trust and

Merchant Bank, and \$J1.7 billion (\$US42.5 million) from Citizens Bank (and its subsidiaries including Citizens Building Society, Horizon Merchant Bank and Horizon Building Society) – in exchange for FINSAC bonds.⁵⁰

In the initial phase, FINSAC asked the banks to act as agents to collect the loans, but later it established its own collection unit.⁵¹ Poor documentation of asset and collateral on assets has prevented the banks and later FINSAC from collecting on many of these loans. As described in the previous chapters, the banks' loan files often lacked key documentation or contained documentation that was incomplete.⁵² According to one subject:

. . . when someone wants a loan you take security such as a guarantee, a mortgage, a lien on the house, a chattel mortgage something like that [and] they sign a promissory note. You then arrange to debit their account for the payment, or the interest payments. You have agreed on the interest rates. In some of the records we received on the loans we took over . . . the documentation of loans was [poor] . . .⁵³

This subject went on to note that, even when the documentation was created and/or gathered initially, that

. . . sometimes [we are] not even being able to find the files on those loans . . . Some [loan files] did not have signed notes . . . [For] some the title had been lost or the title, they had taken it to the Title's Office to have the assignment noted and it is not computerised at the Title's Office or it got lost. Or it was never there. So as a banker you would have no proof that you took that security. Or it had gone down to the Bureau to have the stamp duty put on it and it never came back. Or it got stuck in the black box because the branches may be computerised but they are totally reliant on the supporting agencies on the lateral security side for their, to have their security in order.⁵⁴

The banks, and subsequently FINSAC, often were unable to recover on their assets due to inadequate documentation in their credit and securities files.⁵⁵ The

inadequacy of their documentation was due to the banks' poor record keeping in combination with the inadequacies of record keeping in government agencies to which some of the documentation had to be sent. The result was that a high number of non-performing loans on which the banks could not recover have had to be written off, which has pushed up the cost of the Government of Jamaica's bank bail out exercise.

As the Jamaican financial crisis unfolded, the government also recognised that fraud and corruption had contributed to the problems of several institutions. To address these allegations, it established a team of foreign and local forensic auditors to work with the police fraud squad to reveal and take action on instances of fraud. Due to inaccessibility of source documentation and other accounting records, however, the auditors have found their work extremely difficult. As one forensic auditor commented, "What you are finding is that our work is being severely hampered by the record keeping or the lack thereof."⁵⁶ The subject went on to observe that the work of reconstructing what in some cases were very convoluted financial transactions was made extremely difficult by the fact that critical records, such as general ledgers for specific periods, journal entry files and cheque disbursement registers were missing.⁵⁷ This interviewee further said that:

I am looking at a particular company now where I thought that I was told that all the servers there that I could run off the information. When somebody attempted to do that they realised that the diskette was bad or something. I can't remember what it was. The information was contaminated. So you have a whole year's gone by that you cannot access . . . I have tried so I have now left to do, is to utilise some of the hardcopies. But it is not consistent. You have one month, you can't find two months and you have another month. So it is gonna be very difficult to trace these transactions.

Explaining the consequences of poor record keeping, this subject went on to state that

The court demands that you have certain types of evidence and if you don't have that it jeopardises the whole case support, literally up front supporting documentation. They need to see the books and all that sort of information and if you don't have things like returned cheques then you know it goes a long way in subverting the whole process.⁵⁸

FINSAC has been able to pursue legal action against very few of the owners, directors and managers of the failed commercial banks as a result of the lack of documentary evidence with which to build cases.⁵⁹

Conclusion

This chapter has explored the implications of the banks' records creation and keeping for external agencies involved in banking supervision, and after the bank failures, in intervention and rehabilitation of the failed banks. It has been argued that the failed Jamaican commercial banks' inability to produce trustworthy and timely accounts of financial transactions for the banks' own internal purposes, a result of their record creation and keeping practices and systems, also hampered Bank of Jamaica supervisors' efforts to monitor the banks' financial positions and risks and reign in directors and managers engaging in ill advised and risk taking behaviour counter to the continuing viability of the banks and the overall health of the Jamaican financial system. The banks' poor record keeping has also hampered FINSAC's efforts to accurately assess the banks' value and decide an appropriate course of rehabilitation, to recover losses on non-performing loans and to pursue cases of fraud. These problems also have complicated efforts to

return the banks and the Jamaican financial system to a state of competitive viability and health.

End Notes

¹ Letter to researcher from Mrs. Gayon Hosin, Financial Institutions Supervisory Division, Bank of Jamaica, 29 January, 1999.

² Letter to researcher from Mr. Noel Shippey, Assistant Director, Financial Institutions Supervisory Division, Bank of Jamaica, 2 November, 2000.

³ Indeed, it was only in 1992 that responsibility for banking supervision was formally placed with the Bank of Jamaica and that responsibility formally enshrined in the new Banking Act (source: Bank of Jamaica, Annual Report, 1992).

⁴ See for example, Omar Davies, "Introductory Statements," Symposium on the Crisis of the Jamaican Financial Services Sector. University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings and Claremont Kirton, and Moya Leiba-Barnes, "Financial Sector Crisis in the 1990s: Macro-and Micro-Economic Roots," Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings.

⁵ See, for example, Ansord Hewitt, "An Assessment of the Regulatory Framework of the Jamaican Financial Services Sector," Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings and Dennis Boothe, "Case Study of Selected Financial Institutions," Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings..

⁶ John Tøye, "The New Institutional Economics and Development Theory," *The New Institutional Economics and Third World Development*, John Harriss, Janet Hunter and Colin M. Lewis, eds. (London: Routledge, 1995): 49-68.

⁷ Document entitled "Bank of Jamaica Supervisory Practices" accompanying a letter to researcher from Mr. Noel Shippey, Assistant Director, Financial Institutions Supervisory Division, Bank of Jamaica, 2 November, 2000.

⁸ Ibid.

⁹ Document entitled "Bank of Jamaica Supervisory Practices" *passim*.

¹⁰ Bank of Jamaica, Annual Report, 1987, 30-31

¹¹ Laws of Jamaica, The Banking Act, L.N. 42/1995, s. 16 and 17.

¹² Bank of Jamaica, Annual Report, 1996, 42.

¹³ Document entitled "Bank of Jamaica Supervisory Practices" *passim*.

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- ¹⁴ Government of Jamaica, Ministry of Finance and Planning, "Public Sector Response to the Problems of the Financial Sector," Ministry Paper 13/98, 8 April, 1998, and Bank of Jamaica, Annual Report, 1996, 35-45.
- ¹⁵ Bank of Jamaica, Annual Report, 1997, 22-25, 66.
- ¹⁶ See, for example, Jason Abrahams, "The Need for Restructuring of the Jamaican Financial Architecture and the Way Forward," Symposium on the Crisis of the Jamaican Financial Services Sector, University of the West Indies, Kingston, Jamaica, 27 November, 1999, author's transcription of taped proceedings; "BOJ Governor Keynote Speaker at JIOB Awards Luncheon" *JIOB News* 2,1 (May 1999): 1,6 and subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.
- ¹⁷ "BOJ Governor Keynote Speaker at JIOB Awards Luncheon" *JIOB News* 2,1 (May 1999): 1,6.
- ²⁴ Ojo, M.O. "Deregulation in the Nigerian Banking Industry: A Review and Appraisal" *Deregulation in the Nigerian Banking Industry: Directions, Challenges, Problems and Prospects*, Proceedings of the Bank Directors Seminar (Lagos, Financial Institutions Training Centre, 1991), 119.
- ¹⁹ Ibid.
- ²⁰ Chris J. Barltrop and Diana McNaughton, *Banking Institutions in Developing Markets*, Vol. 2: Interpreting Financial Statements (Washington, D.C: World Bank, 1992), 22-24.
- ²¹ Robert Till notes that he has found that the best way to cross check loan quality is to not necessarily examine each loan individually. If staff or management are trying to cover up poor loans then it is quite easy to "hide" the problem from examiners. It is better to have the loan book quality automated by generating aged receivables in the credit department that is inaccessible to the loans department. This combined with dynamic provisioning creates a dual control system that is free of "surprises". [Robert Till, email to author, 25 September, 2001].
- ²² Corrigan, 320.
- ²³ Document entitled "Bank of Jamaica Supervisory Practices" *passim*.
- ²⁴ Ibid.
- ²⁵ Bank of Jamaica, Annual Report, 1992, 56-67.
- ²⁶ Ministry of Finance and Planning, Ministry Paper 13/98, Kingston, Jamaica, 8 April, 1998.
- ²⁷ See chapter seven.
- ²⁸ Corrigan, 320.
- ²⁹ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.
- ³⁰ Bank D, Internal Audit Report, n.d., and Subject A-10, personal interview Kingston, Jamaica, 17 June, 1999.
- ³¹ Bank of Jamaica, Annual Report, 1994, 32-37.
- ³² Ministry of Finance and Planning, Ministry Paper 13/98 *passim*.
- ³³ Ibid.

³⁴ As at September 30, 1999, FINSAC has acquired \$J28.8 billion (\$US720 million) in non-performing loans from intervened entities. This represented 10,290 accounts and included the portfolio acquired from Workers Bank when it was intervened. As of that date, FINSAC and its affiliates have collected approximately \$J2.8 billion (\$US72 million) in respect of these loans. The total amount of outstanding interest and principal that has been written off is \$J403.8 million (\$US10 million), of which principal is \$J141.7 million (\$US3.5 million and interest is \$J262 million (\$US6.5 million) [Source: Ministry of Finance and Planning, Ministry Paper 61/99, "Update on the Operations of FINSAC," 7 December, 1999].

³⁵ Ministry of Finance and Planning, Ministry Paper 13/98 *passim*.

³⁶ FINSAC, Annual Report, 1999, 7.

³⁷ "Union Bank Sold," *The Gleaner* Wednesday, March 14, 2001, online, internet www.jamaica-gleaner.com, 11 September, 2001.

³⁸ Ministry of Finance and Planning, Ministry Paper 13/98 *passim*.

³⁹ Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999; subject B-1, personal interview, Kingston, Jamaica, 19 May, 1999; and subject A-2, personal interview, 19 May, 2000.

⁴⁰ Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999; subject A-2, personal interview, Kingston, Jamaica, 19 May, 1999.

⁴¹ Subject A-3, personal interview, Kingston, Jamaica, 20 May, 1999.

⁴² Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.

⁴³ *Ibid.*

⁴⁴ Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.

⁴⁵ Subject B-1, personal interview, Kingston, Jamaica, 20 May, 1999.

⁴⁶ *Ibid.*

⁴⁷ Subject A-1, personal interview, Kingston, Jamaica, 19 May, 1999.

⁴⁸ Subject B-2, personal interview, Kingston, Jamaica, 9 June, 1999.

⁴⁹ *Ibid.*

⁵⁰ Ministry of Finance and Planning, Ministry Paper 13/98 *passim*.

⁵¹ *Ibid.*

⁵² Subject A-3, personal interview, Kingston, Jamaica, 20 May, 1999.

⁵³ Subject A-3, personal interview, Kingston, Jamaica, 20 May, 1999.

⁵⁴ *Ibid.*

⁵⁵ "FINSAC documents disappear: Big loans could remain uncollected," *The Gleaner*, Sunday, 20 May, 2001: A1, A3. This article actually leaves the impression that the unavailability of loan and collateral documentation might have been the result of deliberate tampering, though it does refer to the fact that many loans were given without collateral. This study contends, on the other hand, that, though such deliberate tampering with the records may have been a factor, lack of record keeping controls has actually led to the problem by failing to encourage the creation of adequate

documentation in the first instance and then failing to ensure its proper preservation and accessibility.

⁵⁶ Subject F-1, personal interview, Kingston, Jamaica, 9 May, 2000.

⁵⁷ Ibid.

⁵⁸ Subject F-1, personal interview, Kingston, Jamaica, 9 May, 2000.

⁵⁹ As of September, 2001, the status of FINSAC's cases was as below (information supplied by FINSAC, August 30, 2001). Note in particular, numbers 6 and 7 under criminal cases as evidence of the difficulties FINSAC has experienced owing to poor quality information.

Civil Cases

- 1) Blaise Group of Companies – A number of suits were consolidated and action was set for trial in March of 2001 following dismissal of an appeal to have the matter staid until after completion of the criminal proceedings against the defendants.
- 2) Century – The matter went to the Court of Appeal in July, 2000 (Suit #s CL1996c-330 and CL1997c-050). It was ruled that Donovan Crawford and his companies are liable to pay \$J1 billion (\$US25 million) with interest to Financial Institutions Services (FIS).
- 3) Ciboney – A settlement agreement was reached in December, 2000 before the matter went to trial. The agreement was that Neuson's claim of a loan of \$US4 million and \$J90 million together with interest equalling \$US 7.7 million and \$J220 million at the time of litigation was settled fully and finally by acceptance of \$US1 million. In turn, Neuson released and discharged their debenture mortgage and other charges of assets of Ciboney Group which was security for the loan. Also, the time share contracts of Caribbean Vacation Club Inc. were transferred to Ciboney Group Ltd.. \$US250,000 was paid to Ciboney Group Ltd. to procure Ciboney shares held by International Villas Ltd. These shares were transferred to a Ciboney entity. There was a mutual release of claim, counter claim and a discharge of injunctions held.
- 4) Eagle – In the matter Eagle Merchant Bank v Paul Chen Young (CL1998c-095), Chen Young was being sued for breach of fiduciary duty, breach of contract, conversion and fraud. At the present, a pre-trial application by the defendants must be resolved before a trial date can be set. The defendants have indicated that they intend to appeal the matter to the highest level (eg, the Privy Council), so the matter is likely to drag on for much longer.
- 5) Workers/Friends Group Share Issue – This matter has not reached the courts as affidavits have yet to be filed.

Criminal Cases

- 1) Blaise Group of Companies – The criminal proceedings have been delayed as a result of two constitutional motions filed by the defendants. Both are set to go before the Privy Council.
- 2) Century – The Government's investigator presented findings on the criminal investigation to the Department of Public Prosecutions (DPP) in April of 1999. The DPP is determining whether criminal offences were committed and criminal prosecution is warranted. The matter is still under review.
- 3) Ciboney – In light of the civil settlement, it is unlikely that criminal matters will proceed.
- 4) Eagle-The criminal investigation has been finalised. Meetings were held with the DPP in August to brief its staff on the issues. Formal briefs are near completion and should be handed over shortly.
- 5) Workers/Friends Group Share Issue – The matter is with the DPP for a ruling on how to proceed and against whom.
- 6) Mutual Life Corporate Sector – There is insufficient evidence to proceed because of lack of critical information. A report prepared by consultant architects has advised that to gather all the evidence that would be needed would be too time consuming and expensive because the evidence is so scattered and also because some of it has been destroyed.

Therefore, new consultants would have to be hired to re-cost the project, which would be too expensive and time consuming.

- 7) Horizon – FINSAC is discussing the investigator's report with legal counsel. Legal counsel is saying that the evidence is not good enough or not of the right type. Work continues to gather better evidence.

Chapter Ten: Lessons from Experience and Future Directions

Introduction

The previous chapters have sought to define the set of relationships among competitive viability, accountability and record keeping. Chapters two and three discussed these relationships from a theoretical perspective. Chapter four looked to research on the role of record keeping in public sector reform initiatives in Africa for initial empirical evidence in support of the argument for relationships among competitive viability, accountability and record keeping. Chapter five, prefatory to looking at the experiences of failed Jamaican commercial banks, found some support in the literature on banking for links among competitive viability, internal control, accountability and record keeping. Finally, chapters six, seven, eight and nine were used to illustrate how record keeping is implicated in the failure of Jamaica's indigenous commercial banks and thereby to provide empirical evidence of the theorised relationships among competitive viability, accountability and record keeping.

The aim of this chapter is threefold. Firstly, it seeks to provide a summary of the findings of the Jamaican field research in relation to the theoretical framework outlined in chapters two and three. Secondly, it aims to compare the results of the field research with the initial assumptions of this study and the conclusions of the public sector research while drawing out from these comparisons lessons about record keeping and its relationship to accountability and competitive viability. Finally, the lessons learned will be followed by, and form the basis of, a proposed record keeping control framework. The aim in this section will be to suggest a model approach that organisations might adopt in order to avoid records and information related problems similar to those experienced by the failed Jamaican banks and to ensure that record keeping practices support effective accountability and, by extension, continuing competitive viability.

Competitive Viability, Accountability and Record Keeping and the Dynamics of the Jamaican Commercial Bank Failures

As defined in chapter two, competitive viability is the ability of a firm to operate with sufficient efficiency to avoid failure and ensure survival in a competitive market. This, all but one of Jamaica's indigenous commercial banks was unable to do. Data gathered for the study clearly indicate that the banks' record creation and keeping practices can be implicated in their spiral of decline. The field research data have shown how record creation and keeping practices of directors and officers of the failed banks undermined the banks' and external regulators' accountability systems by failing to produce the quality of accounting and management information these systems required to operate effectively. Weakened systems of accountability led to poor decision making and loss of control over

bank operations that, in combination with other factors, undermined the banks' competitive positions.

As noted in previous chapters, the tendency has been to account for the poor decision making of directors and managers and operating problems of the failed banks as being the result of either senior management self-dealing and corruption or management failure to establish appropriate accountabilities and controls for new business areas and risks. Nevertheless, self-dealing or corrupt actions on the part of some directors and managers does not provide a full explanation of the extent of the banks' internal operating problems. Similarly, though the banks' directors and managers did fail to establish appropriate accountabilities and controls for all their business areas and risks, even those accountabilities and controls that they had in place failed to operate effectively. In the face of these facts, it is clear that other factors also contributed to weaknesses in the banks' systems of accountability and control.

This study has argued that one of the triggers for the banks' downward spiral of decline was their expansion, both in size and type of business, in the period leading up to their collapse. Ironically, the very expansion that helped trigger their eventual collapse was viewed as being equally essential to their ultimate survival in the economic environment at the time. Liberalisation opened the door to new types of business, such as foreign exchange trading, and new entrants to the financial sector. Banks had to innovate and expand or face being pushed out of the market. The opening of new branches and the creation of subsidiaries

required a greater degree of decentralisation while the banks' foray into new products and lines of business led to more specialisation.

Greater decentralisation and specialisation led to increased delegation of decision-making and action to a growing number of employees. At the same time, the banks also began to computerise their operations in order to handle growth in the number and diversity of transactions for processing. Together, these changes resulted in the types of operational inefficiencies discussed in chapter two as arising from decentralisation of information processing, decentralisation of information, and decentralisation of incentives, that is, information asymmetry and bounded rationality. These information problems undermined the banks' control of their operations and the effectiveness of their decisions.

Strong systems of accountability might have reversed the downward direction that the banks' internal controls and decision making were taking. Unfortunately, these systems either were not established or not functioning well. The field research data indicate that the failed banks' accountability systems suffered from several weaknesses: Directors and managers, some of whom were engaged in sharp practice, failed to set a tone of high ethical standards and integrity, which would have been needed to encourage and support adherence to operating standards. In some cases, management also overrode existing operating standards and controls, which had the effect of undermining the efficacy of the banks' accountability systems. Management often failed to monitor adherence to and effectiveness of accountability systems as well.

While there is clear evidence to indicate that all of the above factors weakened the effectiveness of the banks' accountability systems, the field research data also clearly point to the fact that weaknesses in the banks' information and communication, the result of the record creation and keeping practices that had evolved in the banks as their operations became more decentralised, also contributed to the ineffectiveness of their systems of accountability and consequent problems of weak internal controls and poor decision-making.

First, though the banks had, in a number of cases, written operating standards and controls, lack of centralised coordination and control over the creation, distribution and retention of these documents contributed to inefficiencies in the communication of this critical dimension of the banks' accountability systems. As the banks grew and expanded, lack of coordination and control over these types of documents worsened, since inscription, transmission and contextualization of documents communicating the banks business rules became increasingly fragmented and uncoordinated.

Second, when the banks began to decentralise, information about decisions and actions also became more decentralised and, indeed, fragmented because those to whom work had been delegated were responsible for creating and keeping information related to the decisions and actions they took. For example, records documenting actions and decisions delegated to staff in the branches, such as loan agreements, were retained in the branches.

This situation made access to adequate information more difficult in two ways. First, it grew more challenging for the banks' senior management to pull together all relevant information from disparate sources for decision-making or even for all the banks' decision makers to know of the existence of relevant information. Secondly, it opened the door to record creation and keeping practices that undermined the quality of the banks' accounting and management information.

The reporting systems upon which managers relied for information both to monitor subordinates and make effective decisions depended upon reliable recording of the actions and decisions taken by subordinates and upon the storage of evidence of business transactions in a manner that ensured later retrieval of reliable records. This became a problem in banks that eventually collapsed.

Deliberate and unintentional failure to create records, inaccuracies and incompleteness in records caused both by human and systems errors, and failure to keep records in an orderly manner in support of information retrieval requirements all led to a breakdown in the communicated meaning of the banks' accounts and a skewed presentation of their financial positions and risks.

Deterioration of the quality of the banks' accounting and management information came about in part because the banks failed to develop requirements and standards to ensure reliable recording of their business transactions and proper storage of records until no longer needed for operational and accountability purposes. In other cases, although the banks had developed requirements and standards for recording and storing records, because of weak management oversight and control, bank managers and personnel were not being held accountable for policy

and procedural compliance. The twin problems of absence of procedural controls over some aspects of record creation and storage processes and weak communication, monitoring and enforcement of any existing controls led to a state of organisational record keeping anomie that permitted the banks' officers to record and store evidence of business transactions according to their own motivations, preferences and standards. Many of these practices undermined the production of the quality of recorded information needed to support effective internal accountability and control.

In the case of records creation, as the field research uncovered, some managers and personnel did not make records because they were motivated by self-interest or the desire to take advantage of legal loop-holes; some did not make records because of an inherent cultural-based preference to transact business orally and informally; and others recorded unreliably because of a lack of training and understanding of the importance of proper documentation coupled with the pressures of attending to other business functions viewed as being more critical. The absence of reliably recorded evidence of business transactions undermined the banks' reporting systems and, thereby, managers' efforts to monitor the actions and decisions of their subordinates as a means of maintaining effective internal control as well as gathering the information needed to assess risks and take appropriate action to manage those risks.

In the case of proper storage of records, managers to whom decisions and actions had been delegated and who were, by default, responsible for the storage of records documenting those actions and decisions saw record keeping – associated

with the storage of paper source documents - as unimportant in comparison to the many other demands on their time and the time of their staff. For the most part, therefore, they delegated responsibility for record keeping to low-level, untrained clerical staff ill-equipped to put in place the controls needed to ensure that the banks' records were stored properly so that adequate information for accountability and control would be accessible in an appropriate form when needed. This prevented the retrieval of records, such as source documents, for such purposes as account verification, fraud detection and prevention, and non-performing loan monitoring and recovery. Here again, the absence of reliably recorded evidence of business transactions undermined the banks' reporting systems and managers' efforts to monitor the actions and decisions of their subordinates to maintain effective internal control.

At the same time, use of computers was on the rise in the banks. As they expanded, the banks had acquired computer-based transaction processing and core accounting systems to improve the efficiency of their transaction processing and the ease with which they could manipulate accounting data for reporting purposes. Increasing use of computers further decentralised and fragmented the banks' evidence of business transactions. In addition, poor management control over the information technology function resulted in system limitations that also contributed to the deteriorating quality of the banks' accounting records. In an attempt to redress these problems, the banks' managers began to rely more on ad hoc applications to supplement the management information available from their main systems. The introduction of ad hoc systems exacerbated the banks' information problems in that it further fragmented information stores between

manual and electronic systems and among different types of electronic systems. Moreover, managers did not see electronic documents generated by ad hoc systems as records and therefore did not ensure that these were added to official record stores. Ironically, therefore, rather than making information retrieval easier, over the long term increasing computerisation in the four failed banks made it more difficult for managers to pull together a complete and accurate view of their banks' financial positions and risk exposures and to monitor the decisions and actions of subordinates. Fragmentation of record stores coupled with the poor quality of a great deal of the information in these systems meant that managers had less access to reliable information as time passed.

As a consequence of the banks' record creation and keeping practices, bank directors and managers and, by extension, shareholders and regulators, lacked the type and quality of information they required to know the banks' financial positions with accuracy and identify and manage risks, particularly fraud, credit risk, market risk and liquidity risk. As a consequence, directors and managers, even when they made a conscious effort to, were unable to maintain adequate control over their bank's operations and make effective decisions about business strategy. This in turn contributed to operational inefficiencies – such as a high degree of non-performing assets, mismatches between assets and liabilities and high costs of operation – that, in combination with other internal management weaknesses and exogenous factors, contributed to a liquidity crisis and erosion of capital of a magnitude that eventually resulted in the banks' failures.

The poor quality of much of the failed banks' accounting and management information not only undermined accountability and, thereby, internal control and

decision making in the banks. It also hampered the efforts of Bank of Jamaica regulators in providing effective supervision of the banks' activities. This allowed the banks to continue along their path of self-destruction and eventual non-viability. Later, the absence of trustworthy and timely accounting and management information also made FINSAC's intervention into and rehabilitation of the banks more difficult and has undermined efforts to sue or prosecute in cases of suspected fraud and corruption.

The Jamaican case points to clear linkages among record keeping, accountability and competitive viability. Indeed, it shows that the way in which a bank creates and keeps its records affects the quality of its accounts and the effectiveness of its accountability systems, which in turn affect its ability to maintain internal control and make effective decisions. Both of these impact upon competitive viability.

As such, the case calls attention to the need to give greater recognition to uncontrolled record creation and keeping practices as a potential source of risk for banks.

The findings of the study are also significant in terms of what they reveal about the dynamics of bank failures. Explanations of bank crises drawing upon theories of information asymmetry focus on lack of transparency in financial transactions as a source of market imperfection. For example, banks' inability to assess with accuracy the risk of default associated with a given borrower may tighten up the money supply and reduce economic activity. This study points to how problems of information asymmetry and bounded rationality within banks also can contribute to the dynamics of bank failure. Additional research may reveal that

these findings are equally applicable to explaining failures of other types of commercial enterprises.

Drawing Lessons from the Jamaican Experience and Comparing the Research Findings with Initial Assumptions and Public Sector Research

Generally speaking, the results of this study mirror many of the research findings on record keeping and the effectiveness of public sector reform initiatives and good governance. On the basis of the findings of this study it is possible to conclude that, just as Wamukoya, Akotia and the International Records Management Trust have found to be the case in public sector organisations, if important information is not available to support internal control and decision-making in a private sector context, competitive viability is likely to be affected.

The study highlighted a number of critical bank functions and processes that were affected negatively by the record creation and keeping practices and the absence of quality accounting and management information in failed Jamaican commercial banks. These included decision making; credit risk management; market risk management; cash flow management; cost of operations; liquidity risk management; capital adequacy; proofing and reconciliation of transactions and accounts; internal control and audit; corruption and fraud prevention; and financial reporting. A detailed operational impact assessment is presented in Appendix 6 of this study. A number of these business functions are areas that the public sector research also pointed to as areas affected by poor record keeping.

The Importance of Identifying Information and Record Keeping Requirements

Like the public sector findings, the field research revealed that directors and managers of the failed Jamaican commercial banks did not have a clear idea of the information required to manage their risks, especially as they moved into new business areas. This not only reflected a management failure to systematically assess the risks arising from new business activities but also management failure to determine the accounting and management information that would be required to keep those risks within acceptable limits. It also reflects management's failure to assess whether there were sufficient record creation and keeping systems, including records related accountabilities and controls, to generate the type and quality of accounting and management information needed to maintain internal control and make effective business decisions. This finding matches with those of the International Records Management Trust, which concluded that even when officials understand the value of records they often overlook the need for records management. The situation in these failed banks pinpoints one of what is arguably a frequently overlooked aspect of management weakness: record keeping. Lessons from the Jamaican experience strongly indicate the need to establish a systematic methodology and practice not only for reviewing organisational information requirements but also the record creation and keeping requirements needed to support the production of appropriate information. Any methodology for doing so, moreover, must entail regular reviews, recognising that requirements can change quickly in volatile external environments, such as that experienced by the Jamaican commercial banks.

The process of analysing information requirements of business processes and related record keeping requirements must include a determination of what quality characteristics the information should bear. For example, what standard of accuracy and completeness does the transaction and related controls and legal requirements dictate? What procedural controls are necessary to achieve the quality standards desired of the records? That being said, establishing controls can be expensive. It is important that the level of control established over record creation and keeping is commensurate with the level of risk (both in terms of the likelihood of occurrence as well as the impact that such occurrence would have on the organisation) that is acceptable to the organisation should the records be unavailable or fail to be of the requisite quality.

The Jamaican experience also suggests that identification of information requirements must assess all organisational interests in and need for information, that is, immediate operational interests and needs as well as those of accountability in support of internal control, decision-making and compliance with regulatory requirements. All too often, only immediate operational needs are taken into consideration by those with responsibility for creating and keeping records. Ideally such an assessment should involve all key organisational stakeholders, in recognition of the fact that attitudes and beliefs about requirements for information are likely to vary between different organisational groups. Stakeholder involvement will help to forge an organisational consensus on information requirements and how best to support these. It will also limit the degree of influence that individual or group record keeping interests – which may not be in alignment with organisational interests - can have on the meaning of

organisational accounts of business transactions. Appendix 8 outlines a model methodology that organisations may use to assist them in the process of identifying their information requirements and assessing the degree to which current record creation and keeping practices support those requirements. This methodology is discussed in greater detail below.

During the information requirements review process every attempt must be made to bring out into the open the hidden assumptions that, as revealed in the case of the failed Jamaican banks, can influence ideas about the significance of records and practices with respect to their creation and keeping. The kinds of assumptions that this study uncovered echo those uncovered by the public sector research.

Banking sector officials, with little exposure to records management as part of their education and training in accounting and business, viewed record keeping as a low level clerical function concerned with filing or storage and destruction of paper source documents. In contrast, information, associated in subjects' minds with computer data not paper records was seen as being useful and its management therefore of greater importance though technically complicated.

These conceptualisations were critical to the information related problems that the banks experienced because they prevented managers from seeing the way that different records in different media and systems interconnected to affect the overall quality and meaning of their accounts. Moreover, it diverted attention and resources from the management of critically important paper records stores, such as credit files and vouchers, with negative repercussions for the function of reconciliation and credit risk management. The Jamaican experience clearly

shows that any assumptions about records that remain tacit may undermine the production of good quality information needed to support accountability.

The Importance of Identifying and Establishing Record Keeping Accountabilities

The process of properly documenting business transactions also includes determining accountabilities for record creation and keeping. That is, who will be responsible for creating and keeping the required documentation to set standard and, equally importantly, who will be responsible for defining documentation standards and controls as well as ensuring that these are met? Accountabilities for records creation and keeping must be established at all levels of the organisation, from the employee who creates a record, to the supervisor who checks it for accuracy and completeness and verifies the validity and authenticity of the transaction, to the internal auditor who ensures that employees and supervisors are following established controls and ensures that controls are working as they should.

There are significant barriers to assigning responsibility and accountability for records creation and record keeping in contemporary organisations. One such barrier arises from the fact that decentralisation creates a situation in which many managers have an interest in different aspects of records and information management. For example, in the Jamaican setting, operations managers were concerned with transaction processing records, financial controllers with accounting records, and information technology staff with records generated and stored electronically.

Fragmentation of interests in the record keeping function can prevent proper control over records. There was a tendency in Jamaican banks to separate management of information by medium (ie, responsibility for aspects of managing records in electronic form fell to a computing department while paper records fell to a registry or “archives” under the control of the operations department) that led to inconsistencies and gaps in the management of the banks’ records. Ultimately, this undermined the quality of their accounting and management information. Managers often are unaware of the dangers that fragmentation poses in terms of being able to access necessary management information. Nevertheless, the field research reveals that there do exist dangers.

To counteract these dangers most large organisations require an integrating mechanism for their record keeping function.¹ Integration can be achieved by means of assigning responsibility for oversight and coordination of the record keeping function to a strong internal record keeping regulator. The person or group most appropriate to taking on the records control function is a matter of debate, however. As found in the public sector studies, no one individual or group has the capacity to take on the role.

Those responsible for what bank officials in the failed banks perceived as record keeping lacked the training, education and organisational stature to take on responsibility for organisational record keeping. Records professionalism in the failed banks was limited, the function having been assigned by managers, who thought of it as relatively unimportant, to low-level clerical staff untrained in

records management principles and practices. But even had they identified the need to assign the function to professional records managers, they would have found few such persons with the capacity to take on this role due to limited local educational opportunities in the discipline. Being a private sector entity, the banks had no recourse to calling upon the record keeping expertise of staff at the National Archives either, as some public sector entities have been able to do. Similarly, information technology specialists in the banks were not equipped to take on the record keeping role, since they were not concerned with record keeping per se but focused more on improving the efficiency of transaction processing through computerisation and on information risks such as system failures and security breaches. Nor were operations managers ideally suited to the task, being primarily concerned with day-to-day transaction processing. One of the failed Jamaican commercial banks made an effort to establish a committee of stakeholders in record keeping processes comprised of the operations manager, financial controller, internal auditor, legal counsel and compliance officer. The focus of the committee, however, being primarily on paper records retention, was too narrow to address more fundamental information related problems.

Some organisations have a chief information officer (CIO) or a chief knowledge officer (CKO) to which regulation of the record keeping function might be assigned.² However, the focus of these positions often is on information technology infrastructure. This may mean that while CIOs and CKOs may be aware of the underlying business information requirements they may tend to focus solely on information technology to deliver the required information and fail to look more broadly at the need for control systems to address how information in

all forms is created and kept. To be effective governors of organisational records control systems, CIOs and CKOs need to broaden their focus to move beyond technological tools of information management and a concern with transaction processing systems to encompass in their thinking concepts, systems, procedures and behaviour to better control the organisation's record keeping processes so as to produce not only accessible but reliable evidence of business transactions.

Chief Operating Officers (COOs) within organisations also may be well-suited to taking prime responsibility for the record keeping function. Often, they are seen as being responsible for being able to produce an end-to-end auditable trail of the transactions that make up the whole business. This may entail reproducing from first principles all records and processes to rebuild the business if all or parts of the data are polluted or lost. As in the case of the Jamaican banks, however, COOs may focus too narrowly on transaction records at the expense of other types of operational records.

The fact that there is at present no single person or group with the focus, capacity and special skills required to effectively serve as a strong internal regulator of the record keeping function suggests that professional re-orientation, education and

training are needed to build up capacity. Appropriate training and education, however, is unlikely to be widely available until organisational recognition and demand of the need for such persons becomes stronger.

Whether the person is called a chief information officer, a knowledge manager, a records manager or something else, some person or body within each large organisation should be charged with responsibility for identifying the organisation's information requirements and ensuring that there are in place necessary people, systems, standards and practices to support these requirements. This person or body also must have a link to the organisation's senior management team to ensure that information requirements reflect and support changes in business strategy, operating environment or size and scope of business and also to ensure that the person or body wields enough influence within the organisation to make any changes to record keeping and other systems that might be needed to meet the organisation's information requirements for effective accountability and control. In addition, this person will need to work closely with other managers, such as an operations officer, to ensure that record keeping systems support the information requirements of business functions and processes.

The Need to Establish Clear Record Keeping Business Rules

Having identified records related requirements and accountabilities, boards and senior management must take steps to document procedural controls and accountabilities for each business process in clearly written policies and procedures. Establishing clear business rules regarding records creation and

keeping is a significant part of promulgating a sound record keeping organisational culture. This culture should underscore the importance of properly documenting business transactions and constrain individualised record creation and keeping behaviour that contributes to distortions or gaps in the meaning of accounts. Another important means of creating a strong record keeping culture is the provision of ongoing training at all levels emphasising the importance of sound record keeping and the consequences of poor record keeping.

As directors and managers may themselves lack an understanding of the importance of establishing and ensuring the effective implementation of clear business rules for records creation and keeping, they also may require sensitisation to the issues. This is likely to be a long term path to achieving organisational change as it takes time to shift fundamental and long-held management attitudes and beliefs. This shift is likely only to take place if the education and training that they receive places greater emphasis on the systems (ie, structures, staff, standards etc.) needed to manage records effectively in all media and formats.

Clearly, the reliability of records as evidence of transactions depends to a great degree on boards and senior management – to establish business rules requiring the making of proper records and to foment a culture that encourages this practice. This begs the question of interest and motivation. What happens when directors and managers are not interested in what is best for the organisation, but only in what is best for themselves or their associates? As comments by several interview subjects and observers of the Jamaican situation reveal, when this is the case directors and managers may avoid establishing and promoting clear business rules

for records creation. In fact, evidence collected for this study, which is also supported by the findings of others writing on the subject of the link between record keeping and accountability, indicates that directors and managers are likely to shun the making of records of business transactions to avoid implicating themselves in the conduct of questionable practices.³ What then can be done?

The solution lies in holding directors and managers to account for ensuring that business transactions are properly documented. As boards are accountable to shareholders, it makes sense for shareholders to demand accountability in this respect. However, there are barriers to such market-based monitoring and discipline. Shareholders may have inadequate information to properly assess the degree to which the businesses in which they have invested are ensuring that all business transactions are properly documented. Their main source of information about the state of their investments is annual financial reports, but banks and other companies under current legal frameworks are not required to report on the state of their record keeping. The statements of external auditors sometimes provide clues about record keeping practices; however, auditors seldom are concerned with assessing the adequacy of record keeping systems as part of producing audited financial statements.⁴ How then could a shareholder be expected to know whether the bank was failing to document properly?

One solution might be to require banks to include a statement about their business rules for records and information control as part of a wider statement in their annual reports on internal controls and corporate governance. Such a requirement would be akin to that under UK regulation requiring banks to include a statement

on internal control in their annual financial reports, though in the UK requirement there is no specific directive to discuss record keeping practices.⁵ As in the UK where the requirement to report on governance systems has encouraged many banks to adopt better practices and establish their own internal codes of best practice, not only might a similar requirement for record controls provide more information to shareholders but it could encourage banks to adopt better practice.

While it is believed that this approach has merit, it is likely to be a long-term strategy for change. Moreover, it does not address the need to provide guidance to shareholders so that they can assess banks' business rules for record keeping properly, nor does it provide guidance to the banks as to what kind of business rules to put in place. Consequently, this study takes the view that there is a role for bank regulators and supervisors to play in encouraging best practice and discouraging sharp practice as part of their regulatory and supervisory regimes.

One way of encouraging better record keeping practices is through the establishment of best practice guidelines. The Bank of Jamaica has established guidelines that address information and communication practices in banks. So has the Basle Committee on Banking Supervision. However, in both these cases the guidelines are too general in scope and focus. Provisions relating to policies and procedures state merely that they should be established for all areas of risk but do not address how their creation, distribution and retention should be managed to ensure effective communication and compliance monitoring. In calling for adequate internal financial, operational and financial data, the Basle Committee framework merely states that such information should be part of record keeping

and nothing about what those record keeping processes should entail aside from addressing records retention. The Bank of Jamaica standards are similarly silent on the subject of what appropriate record keeping controls entail. Regulatory authorities need to become more specific and prescriptive in terms of the management of records to give banks a better idea of what record keeping controls should include. That being said, however, regulatory guidelines should not aim to spell out exactly what controls must be in place as each institution's requirements will vary with the services and products it offers, the type and scope of its business, its particular business strategies and the external environmental conditions in which it finds itself operating. Rather, it is suggested that it will be more helpful to provide directors and managers with a control framework that they can adopt to ensure effective management of records creation and keeping. To this end, a proposed framework is presented in the following section.

How Good Record Keeping can Contribute to the Control of Operational Inefficiencies Caused by Growth and Expansion

The study also has shown that rapid organisational expansion – both in terms of size and scope of activity – helped to trigger the loss of accountability and internal control leading to the operational inefficiencies experienced by the failed Jamaican commercial banks. The experiences of these banks serve to highlight that organisations need to be wary of emerging operational problems during periods of rapid growth and expansion. While such growth and innovation may be necessary to competitive viability it can bring about loss of accountability and internal control and operational inefficiencies due to problems of decentralised information processing, decentralised information and decentralised incentives. In

times of rapid growth and innovation, therefore, it is critical for an organisation to pay particular attention to the effectiveness of its internal controls, an important element of which is accountability. Since, as has been shown, an organisation's record creation and keeping practices play an important role in the effectiveness of internal systems of accountability and control, organisations must be especially vigilant that these practices support effective operation of such systems.

Unfortunately, the same forces that undermine other internal controls during a period of rapid growth and expansion are likely to have a similar effect on record keeping accountabilities and controls, as seen in the Jamaican example. This suggests that organisations will need to take time to reassess the information required to support their accountability and control systems in light of environmental or organisational changes. They then must take steps to establish a set of clear, shared organisational values and standards of behaviour to encourage the record creation and keeping practices that best meet the organisation's identified needs for information under changing circumstances.

The Place of Good Record Keeping versus Restructuring in Addressing Information Related Operating Inefficiencies

Organisations often turn to restructuring operations – for example, flattening the organisational structure – or restructuring of information stores (eg, by centralising information stores) - to address the common information inefficiencies of large hierarchies. If the Jamaican experience gives any indication, these efforts are likely to prove ineffective unless accompanied by the establishment and implementation of clear accountabilities and controls over record creation and keeping in the new organisational arrangement. As seen in the case of the failed bank which decentralised its credit administration operations, in

the absence of business rules and accountabilities relating to the creating and keeping of loan documentation to support the new arrangement, the bank's credit related records quickly became disorganised, incomplete and untrustworthy thereby undermining credit risk management. In an effort to solve the problem, the bank then centralised its store of credit records. The centralisation exercise was, however, only effective in the case of securities files because the bank also established clear business rules concerning the creation and keeping of these records and put in place a strong records regulator to ensure adherence to the rules. Credit files, on the other hand, for which business rules were established only after the collapse of the bank and management oversight was weak, remained in a disastrous state. The findings of the field research suggest that organisations should assess the efficacy of their record creation and keeping accountabilities and controls as improvements in this area may resolve organisational information inefficiencies without resort to disruptive and expensive corporate reorganisations of people or records.

The Place of Good Record Keeping versus Computerisation in Addressing Information Related Operating Inefficiencies

It is possible to draw a similar conclusion with respect to the introduction of computers. Computerisation often is seen as a panacea for organisational information problems and, as a result, organisations regularly spend a great deal of money introducing computerised systems only to be disappointed with the results. There are many reasons for the failure of information technology projects. The results of this research support one of the more commonly found reasons for their

failure, that is, failure to ensure that business requirements rather than technological considerations drive choice, development and implementation of systems. As discussed in chapter eight, the Jamaican experience indicates that this “disconnect” between operational requirements and technological solutions often results from a lack of knowledge and understanding about technology on the part of operational managers who then abdicate technology decisions to information technology specialists with an insufficient understanding of business requirements. Ultimately, this disconnect can prevent systems from functioning optimally and create information problems during processes of record inscription, transmission or contextualization, such as the unintentional accounting errors found in the failed Jamaican commercial banks. The findings clearly support the notion that operational management must drive the introduction of computer systems. They also must take responsibility for developing a clear understanding of the organisation’s information requirements. Such an understanding requires deliberate, careful and systematic analysis along the lines proposed in Appendix 8.

The Jamaican experience also yielded another insight into the reasons why computerisation often fails to solve organisational information problems.

Organisations generally introduce these systems in order to increase the number of transactions and speed with which they can be processed as well as the ability to conveniently manipulate data for reporting purposes, as was the impetus to computerise transaction processing and introduce computerised core accounting systems in the failed Jamaican commercial banks. The introduction of these systems had two unintended consequences that contributed to the information problems experienced by the failed banks, however. First, introduction of such

systems contributed to the problem of decentralisation, or fragmentation, of information in the failed banks. Accounting information became scattered between manual accounting records and those in computerised form, introducing greater complexity and opportunities for error into the banks' account production process. These complexities undermined both trustworthiness and timely retrieval of relevant accounting and management information. As the banks' managers and employees began to develop ad hoc computer systems to produce management reports unavailable from the banks' larger systems, further fragmentation of information occurred. Thus, ironically, while intended to improve information processing in the banks, these computer systems unintentionally introduced information problems that had the opposite effect.

Second, the introduction of computer systems rendered business rules concerning the creation and keeping of manual records obsolete. In many cases, the banks did not establish new accountabilities and controls over record creation and keeping in the new electronic environment. This, too, undermined the trustworthiness and timeliness of the banks' accounting and management information. The banks' computerised customer information files, for example, for which there were no data entry controls were quite unreliable. Similarly, the banks had no rules for how records generated by ad hoc systems should be created and stored.

By drawing attention to the unintended problems created by these systems it is not meant to suggest that those involved in rehabilitating the failed banks have been mistaken to make it a priority to improve the banks' information technology infrastructure. Clearly, improvements to information technology will be critical to

the competitiveness of the banks if it leads to faster and more effective transaction processing and better management information. However, computerisation should move ahead keeping in mind three important lessons from the experiences of the failed Jamaican banks. First, management must look not only at the impact these systems will have on transaction processing but what effect they will have on the production of information required to support the enterprise's systems of internal accountability and control. Second, whenever existing business rules for record creation and keeping are displaced, as they inevitably are when new systems are introduced, new accountabilities and controls must be established in order to ensure that record creation and keeping practices support the aims, objectives and accountability requirements of the organisation and that the organisation's records do not become less trustworthy or less timely – no matter the media and means by which they are inscribed or stored. Third, since the introduction of new computer systems can lead to fragmentation of information, managers must pay close attention to system integration, including the integration of information in manual and electronic form.

Along with the trend to rely on computers to solve all information related problems, it has become fashionable to think of paper records as cumbersome and often useless and therefore to seek to digitise them. Many of the subjects interviewed for this study, including those involved in the rehabilitation of the failed banks, have expressed this view. From the standpoint of improving the quality of recorded information in support of accountability and internal control, however, the perception that the establishment of better control over more traditional forms of records is of little importance or even a waste of time shows a

lack of appreciation for how paper-based source documents ultimately provided a critical foundation for the banks' management information systems. For many types of transactions, banks still rely on the completion of paper forms, such as deposit vouchers, cheque vouchers and internal transaction vouchers, to initiate transactions. Bank officers then use these forms to post financial transactions to computer-based transaction processing and core accounting systems and, later, to verify the reliability of those postings. Until banks no longer use these paper source documents, management must turn their attention to improving control over source documentation to ensure that information derived from their computer-based transaction and accounting systems is reliable.

As discovered in the course of the research, the low priority given to managing paper records has come from managers' preconceived ideas about paper records rather than a systematic and rational evaluation of the value of the records in relation to overall information requirements for transaction processing and internal accountability and control. These preconceived ideas about paper records in conjunction with management's tendency to ignore the need to preserve such records for purposes other than the immediate processing of operational transactions fed a culture of neglect for these types of records that, ultimately, served as a self-fulfilling prophecy. In contrast to the received wisdom, many of these records – credit files, for example – contained information critical to managing the banks' risks and controlling their financial positions. From this standpoint, they were extremely valuable regardless of their paper format. Management neglect of the creation and keeping of these records affected their accessibility, not their essential value to the organisation.

This suggests that changing the format of paper records, in itself, would not have affected the value of the records, though it may have improved their accessibility. However, improved accessibility is not necessarily only achieved by changing records' format. Digitisation projects often also serve as an opportunity to establish clear accountabilities and controls over paper records previously neglected and fragmented. This is one of the ways in which such projects can increase the accessibility of records. However, similar results may be achieved by establishing accountabilities and controls over the records without converting them into computerised form. Better organised records stores and the use of information locating indexes, whether manual or computerised, can improve the rate of retrieval significantly. Conversely, digitisation projects that fail to establish appropriate records accountabilities and controls can reduce the reliability and accessibility of records. This is in no way to suggest that digitisation of paper records does not offer some tremendous advantages in terms of reintegrating information while at the same time allowing timely local access to remote record stores. Nevertheless, in advance of moving into what are often very expensive digitisation projects, organisations should explore the option of improving management of the records in their paper format. In addition, organisations are warned that digitisation projects are likely to prove unsuccessful unless new business rules for record creation and keeping that work with the new technology are established and implemented.

Ultimately, the solution to the “bothersome” need to organise and store vast quantities of paper source documentation may lie in generating these documents

electronically. Certainly, with the growing trend toward e-commerce more of these documents will be produced in digital form in the first instance. Increased use of technology is likely to raise the bar on the need to control the processes of record creation and keeping, however, not lower it. Controls must be established to ensure that electronically generated transaction documents are authentic and reliable, that they are contextually linked to the transactions which they document and that they can be retrieved as needed to meet operational, accountability or legislative requirements. Technology, such as electronic records management software, can facilitate the process of control but it will not drive it. Management must assess the types of controls that are necessary to produce recorded information of an appropriate quality and take steps to implement systems and strategies to ensure that effective control is achieved or see the meaning of their records disintegrate and succumb to system-generated distortions. Standards concerning the creation and keeping of reliable and authentic electronic records and the functionality of electronic record keeping systems can assist in ensuring that electronically generated records are more trustworthy, for example, the US Department of Defense Standard 5015.2-STA “Design Criteria Standard for Electronic Records Management Software Applications” and the UK Public Record Office’s “Functional Requirements for Electronic Records Management Systems,” to name but two.⁶

Timely access to relevant information was a significant problem in the Jamaican case. The findings of the field research suggest that, whether a records store is manual or computer-based, those responsible for the design and management of these stores must take steps at early stages to identify the types of access points by

which users will want to retrieve information. This requires ongoing consultation with users to discuss the ways in which they plan to use the information. It is then the task of those responsible for acquiring or developing the system to ensure that it possesses the appropriate functionality (eg, fields and/or indexing capacity) to support the organisation's information retrieval requirements.⁷ Such a consultative process is unlikely to work effectively, however, if operational management and information technology specialists are unwilling or unable to communicate effectively, as was apparently the case in the Jamaican commercial banks that failed.

As it is impossible to predict all of the ways in which the users of records stores may want to retrieve information over time, managers should seek to acquire or develop systems that allow some flexibility in how data can be retrieved and presented. Clearly, the goal of flexibility is much easier to achieve with computer-based records stores than with those in manual form, but managers should never assume that computerisation automatically makes information easier to retrieve. Without a shared understanding between managers and information technology staff about information required to support business objectives, retrieval problems will persist.

To ensure long-term accessibility of quality information for accountability purposes, the setting of appropriate retention periods and final dispositions for records in electronic form also will be necessary. Due to the relative volatility of electronic records, the earlier that decisions about retention and disposition are made the greater the likelihood that appropriate records will be accessible for

future reference. Early consideration must also be given to preservation methods, such as migration to new formats and storage media, for those electronic records having long-term significance. Unless these strategies are decided upon from the outset of the record's creation, there will be a greater chance that the quality of information needed to support organisational and social accountability will be irretrievable. In addition, such strategies are unlikely to prove effective in the absence of a well-structured record keeping system supported by a strong record keeping regulator, as there will be no one to ensure that migration strategies are implemented effectively and on a timely basis.

The Need to Incorporate Good Record Keeping into Economic Development Policy and Strategy

Effective corporate governance and oversight by regulatory and supervisory bodies depends upon access to trustworthy and timely information about the operations of a commercial enterprise as the Jamaican case clearly shows.

Organisations like the World Bank argue that the availability of reliable accounting information is supported by strong systems of accountability. In turn, these systems of accountability are strengthened by the introduction of accepted accounting standards and regular audits, the argument being that these will help to ensure the reliability of financial information coming from commercial enterprises. While accounting standards and audits will help, this study has shown that, on their own, they are unlikely to produce the sought after degree of trustworthiness and timeliness. This is because accounting standards and audits address and attempt to control only a small part of the total account production process. Exploration of the account production process in the failed Jamaican commercial banks has revealed its complexity and how weaknesses at any stage of

the process of record inscription, transmission and contextualization can have knock on effects that alter the intended meaning of accounts and reduce their level of trustworthiness and timeliness. This suggests that policies and strategies aimed at increasing the reliability of management and financial accounting information coming from commercial enterprises, such as banks, must aim to establish accountability for and control over all aspects of the inscription, transmission and contextualization of the account. This is likely to require a major paradigm shift on the part of economic development policy makers whose policies and strategies, up to now, have tended to reflect received accounting wisdom about the accounting process rather than a deeper understanding of the sources of information related problems arising from the complexities and realities of accounting in the practical circumstances of particular commercial enterprises.

A Record Keeping Control Framework

When we explore the record empirically, as this study has done, we see that the production of meaning in records takes shape over time through the choices made by individuals, including record creators and record keepers, involved in processes of inscription, transmission and contextualization. The end result can be messy and accidental, as in the case of the failed Jamaican commercial banks, because individuals often are blind to the overall organisational implications of their decisions. They may be caught up in the daily pressures of their work and operating on the basis of cultural values deeply embedded in their consciousness. In other cases, individuals may be acting more consciously in their own self-

interest at the expense of the organisation. In large, complex organisations where there is a multitude of social actors making, keeping and using records according to an equal multitude of motivations, it is the chaotic collision of these motivations and choices that produces the meaning and significance of the organisation's accounts of business transactions.

As seen in the discussion of problems experienced by the failed Jamaican commercial banks in the production of accounting and management information, the accidental production of meaning in records can be a far cry from what is necessary to support the effective operation of organisational accountabilities and controls (eg, reliable, authentic and accessible records). Unacknowledged and uncontrolled social and technical influences on the creation and keeping of records distorted the meaning of the banks' accounts. Of course, as already pointed out, these distortions alone did not cause the collapse of six indigenous Jamaican commercial banks. Nevertheless, the research indicates that they were an aggravating and contributing factor. It is therefore possible to see that, in combination with other factors, the organisational and social consequences of uncontrolled records inscription, transmission and contextualization can be high.

Thus it would appear necessary, in the interests of serving organisational accountability and control and, by extension, viability, to attempt the "precarious structuration of chaos."⁸ That is, to aim to introduce accountabilities and controls over record inscription, transmission and contextualization that, to the extent possible, encourage individuals to make choices that produce meaning in records

which serve organisational (and in many cases broader social) ends as opposed to other interests.

As the function of establishing accountability and control is the same whether applied to record keeping or wider organisational operations, it should be possible to draw from general models of organisational accountability and control to arrive at strategies and systems to establish effective accountability for and control over processes of record inscription, transmission and contextualization. In 1991, the Committee of Sponsoring Organizations of the Treadway Commission (a US-based national commission on fraudulent financial reporting henceforth referred to as COSO) presented a report outlining an integrated internal control framework.⁹ The report was the result of inputs from corporate executives, legislators, regulators, consultants, auditors and academics on the requirements for internal organisational accountability and control. This report later formed the basis of the Basle Committee's framework for evaluating bank internal control systems, discussed in chapter five.

The COSO report concluded that when there are accountability and control failures in an organisation they often result from deficiencies in one or more of five areas: lack of integrity, or ignoring ethical values on the part of top management; a weak or negative control environment; failure to link top-level objectives with objectives for operating and support units; poor communication within the organisation; and the inability to understand changing conditions.¹⁰ On the basis of their analysis, the Committee developed five interrelated internal control components as follows: 1) control environment, 2) risk assessment, 3)

control activities, 4) information and communication and 5) monitoring.¹¹ The Committee argued that, working together, these five components result in an effective internal control system.

These same five elements can be applied to establishing accountability and control in the area of record keeping. Indeed, many records management texts and guidelines, such as ISO 15489, an international records management standard, Australian Standard 4390 on records management, and the International Records Management Trust's *Principles and Practices in Managing Financial Records* recommend similar strategies, though they present them in a slightly different format.¹² The five elements can be applied to record keeping in the following way:

-Control Environment. The record keeping control environment comprises the set of shared values, beliefs and norms that define how records will be inscribed, transmitted and contextualized throughout their existence within the organisation. As such, it is the foundation for all other components of record keeping control, providing both discipline and structure. Organisations with effective record keeping control environments set a positive “tone at the top”, hire and retain people with the requisite records management skills and competencies at all levels, and foster records integrity and control consciousness through ongoing training and appropriate rewards and sanctions. They set and effectively communicate, monitor and enforce formalised records related policies and procedures, resulting in shared values and teamwork.

-Information Requirements and Risk Assessment. Risk assessment for record keeping first involves the process through which management identifies the type and quality of information required to support completion of and accountability for all of its business transactions and assesses the likelihood and impact of risks to the organisation if the required information is not available or of adequate quality. It then entails assessing how well currently available types and quality of information match organisational information requirements and deciding on the strategies to be pursued to rectify any deficiencies. Since there is no practical way to eliminate all risk, management must decide how much risk it is willing to tolerate and determine how those tolerance levels can be maintained through appropriate record keeping controls. The decision making process will need to weigh the cost of controlling records related risks against the cost to the organisation if the risks are not controlled. Risk assessment should be undertaken on an ongoing and regular basis, especially in a volatile external environment. A model assessment tool is presented in Appendix 8.

This assessment tool comprises an eight step methodology for evaluating an organisation's records related risks and requirements. Step one entails identifying and ranking key business functions. This is followed by identifying and ranking the key business processes for each business function. Upon identification of key business processes, these are assessed to determine the records and information required to support

them and the qualities that such records and information ideally should possess (eg, levels of completeness, reliability, timeliness, etc.).

Following this assessment, organisations should determine the degree to which these quality requirements are satisfied and, if not being fully satisfied, the type and degree of risk that this poses to the organisation.

From these assessments it is possible to arrive at a quality level and risk assessment profile for each type of required information or record as well as to calculate the category of record for which it will be of the greatest strategic importance to correct quality deficiencies through appropriately strengthening record keeping systems.

-Control Activities. Control activities are the policies and procedures put in place to assure management's record keeping directives are carried out. Control activities should encompass all phases of the records life cycle, including prescribing and proscribing the terms of record creation to ensure that these meet the conditions that produce authoritative and trustworthy records needed for efficient business administration and accountability. Control activities also must support the establishment and maintenance of record keeping systems that appropriately contextualize records, for in the process and technologies of contextualization record keepers minimise the possibility of alternative readings or misreading of the meaning in records by capturing and fixing original authorial intent in the meaning of records over distances and time.¹³ Control activities permeate the entire organisation, at all levels and in all functions, and include a range of possible actions that should fit the organisation's needs

and be influenced by the way the organisation is structured and managed, and by the type and complexity of its transactions and commitments. Though specific control activities must match organisational requirements, the following can be singled out for special attention: 1) organisational record keeping structure and lines of authority; 2) monitoring procedures (eg, over the destruction of records to ensure that unauthorised destructions do not take place; 3) segregation of duties (eg, between those responsible for designing a system, maintaining it, and transacting business); 4) authorisation and approval (eg, appropriate authorisation and approvals for record creation and destruction); 5) completeness and accuracy (eg, in documenting all business transactions; 6) safeguarding of records; 7) personnel (eg, to ensure that staff have received appropriate training to perform records control activities and understand the importance of these controls).

-Information and Communication. Systems for capturing and communicating relevant information about how records are created and kept are an essential component of the records control process. These systems are essential because they produce reports containing operational and compliance information needed to control the record keeping function. Examples of the type of information required for records control include: records management policies and procedures; file classification plans, registers and indexes; file movement tracking registers; document and file metadata; system backup and archiving daily

activity logs; system error reports; system access audit logs; records retention and disposition authorities; and records destruction certificates.

-Monitoring. There should be ongoing monitoring of adherence to records controls, which occurs during normal operations, as well as separate evaluations by management of compliance with records controls, often with the assistance of the internal audit function.

Even the best efforts to build a dam against chaos often fail, however. In other words, it is not realistic to expect that even the best practices will ever result in the perfect preservation of some inviolate original meaning in records and that records will ever be perfectly reliable and impartial evidence of either the “facts” of a transaction or an inscriber’s original intended meaning. There are simply too many diverse mediations affecting record making and keeping over space and time in complex organisations and record keepers are simply too human and apt to impose their own (often unconscious) interests.

For this reason, attempts to contain chaos must be accompanied by the ability to give the record a critical reading, a reading based on an understanding of how both designed and accidental social and technological influences structure the meaning of the record. Only by listening to the virtual clamour of voices making choices behind the record is it possible to form impressions about and map the complex relationship and interplay between the act or fact that is the subject of the record; the inscriber’s intended meaning; the meaning required to serve organisational and social ends; and all subsequent layers of meaning produced

through mediated processes of re-inscription, transmission, contextualization and subsequent use.

Conclusion

This study has sought to demonstrate a link between competitive viability, accountability and record keeping by presenting a proposed theory of relationship between these phenomena and then exploring this theory empirically using a case study of the failure of several Jamaican commercial banks. While it cannot be argued that bad filing habits resulted in the collapse of these banks, this study has shown how record creation and keeping practices in the failed banks contributed to the poor quality of their accounting and management information and how, in the absence of good quality accounting and management information the banks' systems of accountability could not operate effectively. As a result, directors and managers in the failed banks were unable to maintain internal control and make effective decisions. This, in turn, led to operational inefficiencies that, in combination with external conditions, contributed to the banks' collapse. This same absence of good quality accounting and management information also affected the ability of bank regulators to provide effective supervision and, later, complicated FINSAC's intervention and rehabilitation efforts.

In this chapter, management lessons were drawn from the Jamaican experience and used to suggest strategies and policies that directors and managers might follow in order to avoid the types of records and information related problems that

undermined the accountability systems of the failed banks. Studies of bank failures in other developing countries, though not focusing on records and information related problems, suggest that lessons from the Jamaican experience may be equally applicable. For example, studies of the Nigerian banking crisis indicate that similar external and internal factors affected banks in that country.¹⁴ Further research into the underlying causes of information related weaknesses in the case of other bank failures might provide additional support for the relationships among competitive viability, accountability and record keeping presented in this study. In addition, the fact that the results of the case study on Jamaican banks match many of the findings of research into the relationship between record keeping and public sector reform initiatives suggests that the management lessons drawn from the Jamaican experience are applicable to a wide range of organisational settings and contexts. Further research will, no doubt, shed additional light on the dynamics of how poor record keeping can contribute to the dynamics of other types of business failures.

There are also several other areas that this research suggests might be worth further investigation. First, the research revealed how bank directors and managers' ideas about records, information and management information systems shaped their record creation and keeping practices and their understanding of and solutions for the banks' information related problems. These findings highlight the fact that root causes of information problems are often misunderstood as a result of preconceived ideas. Further research comparing ideas about the sources of organisational information problems with actual on-site investigations of those problems may shed additional light on the causes of such problems and, thus, lead

to more effective solutions. For example, many managers assume that information related problems arise from poorly structured organisations or inadequate computerisation. Corporate restructuring and computerisation are therefore popular business strategies for dealing with information related operational inefficiencies associated with decentralisation and specialisation. This study suggests, however, that attention to record creation and keeping practices must accompany restructuring and computerisation if these strategies are to be effective. Moreover, expensive restructuring and computerisation exercises may be unnecessary if good record keeping practices can be used to improve the flow and quality of information supporting internal control and decision-making.

Causes of market imperfections is another area that this research indicates may be worth further investigation. Many current economic theories focus on information related market imperfections arising from information asymmetry between an enterprise and agents external to it. This study supports the idea, however, that information asymmetry and bounded rationality within an organisation created by poor record keeping equally may render an enterprise less competitive and thereby contribute to market imperfections. This study suggests that further research also could be done into the “objectivity” of accounting data. Current policy usually focuses on the reliability of accounting and financial reporting as being influenced by accounting rules about the presentation of data and the quality of report auditing and not on how that data is inscribed, transmitted and contextualized throughout the accounting process. In contrast, this study suggests that record creation and keeping practices are factors determining reporting quality and reliability and therefore that business and economic development policy and strategy aimed at improving the quality and reliability of financial reporting must

ensure good record keeping practices. Further research into the relationships among competitive viability, accountability and record keeping may assist in revealing the limitations of a number of existing business and economic development theories and, thus, lead to more effective business and economic development policy and strategy in the future.

End Notes

¹ Thomas Stewart wrote in the mid-1990s about the emerging role of the knowledge integrator [Thomas A. Stewart, "Managing Corporate Brainpower" *Fortune*, 30 October, 1995, 221 quoted in Jan Duffy, *Harvesting Experience: Reaping the Benefits of Knowledge* Prairie Village, Kansas: ARMA International, 1999, 183.

² See on this subject, Duffy, *Harvesting Experience*, 183-199.

³ See Sue McKemmish, "Recordkeeping, Accountability and Continuity: The Australian Reality," *Archival Documents: Providing Accountability Through Recordkeeping*, edited by Sue McKemmish and Frank Upward (Melbourne: Ancora Press, 1993), 9-26.

⁴ For example, accountants will sometimes resort to using a technique called "Incomplete Records" to derive approximate figures if records are not available [See Frank Wood, and Alan Sangster. *Business Accounting 1*, 8th Ed (London: Financial Times Professional Ltd., 1999)]. Akotia cites the use of this technique in the preparation of Government of Ghana final accounts [Pino Timothy Akotia, "The Management of Public Sector Financial Records: The Implications for Good Government," diss. University of London, 1997].

⁵ Corporate governance, the system by which companies are managed and controlled, is a topic of increasing interest in the UK. Over the last few years, guidelines and codes have been developed by the Cadbury, Greenbury and Hempel Committees. This process resulted in the publication in June 1988 of the Combined Code – Principles of Good Governance and Code of Best Practice.

⁶ United States Department of Defense, DoD 5015.2-STA, "Design Criteria Standard for Electronic Records Management Software Applications," Revision 1, October 2000, Online, Internet <http://160.149.176.119/docs/5015.spt.doc>, 11 September, 2001. See also, United Kingdom Public Record Office, "Functional Requirements for Electronic Records Management Systems," Online, Internet <http://www.pro.gov.uk/recordsmanagement/eros>, 11 September, 2001.

⁷ The need to extract data from multiple business applications and organise it in different presentations that are meaningful to the business has given rise to "data warehousing" products that comprise tools and application software that support design, development and implementation of data retrieval and reporting solutions. For more information see Jan Duffy, "The Tools and Technologies Needed for Knowledge Management" *The Information Management Journal* 35.1 (January 2001): 65.

⁸ Ien Ang, "In the Realm of Uncertainty: The Global Village and the Capitalist Postmodernity," *Communications Theory Today*, David Crowley & David Mitchell eds. (Stanford, Calif.: Stanford University Press, 1994), 206.

⁹ Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework*, Exposure Draft, March 12, 1991 (New York, N.Y.: The Committee of Sponsoring Organizations of the Treadway Commission, 1991).

¹⁰ Ibid, 1.

¹¹ Richard M. Steinberg, “Internal Control – integrated framework: a landmark study,” *CPA Journal Online* (June 1993), Online, Internet <http://www.luca.com/cpajournal>, 12 March, 1998. See also, Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework*, 6-7.

¹² International Standards Organisation, *ISO 15489: Information and Documentation – Records Management*, Parts 1 & 2 (Geneva, Switzerland: International Standards Organisation, 2001). This standard has been based on the Records Management Standard (AS 4390.1/1996) produced by Standards Australia [Standards Australia, *Australian Standard AS4390-1996: Records Management*. (Homebush, NSW: Standards Australia, 1996)]. See also, Kimberly Barata, Piers Cain and Dawn Routledge. *Principles and Practices in Managing Financial Records: A Reference Model and Assessment Tool* (London: International Records Management Trust, 2001).

¹³ Brien Brothman, “Declining Derrida: Integrity, Tensegrity, and the Preservation of Archives from Deconstruction” *Archivaria* 48 (Spring 1999): 80-81.

¹⁴ Indeed, a paper by Dr. M.O. Ojo on the Nigerian banking crisis indicates that, as in the Jamaican case, Nigerian bankers experienced a loss of control over their balance sheets due to inadequate information systems [see M.O. Ojo, “Deregulation in the Nigerian Banking Industry: A Review and Appraisal,” *Deregulation in the Nigerian Banking Industry: Directions, Challenges, Problems and Prospects: Proceedings of the Bank Directors Seminar, 1991* (Lagos: Financial Institutions Training Centre, 1991), 104-120.

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Appendix 1

Interview Question Guide

The following list of questions and the order of their presentation were used as a guideline in conducting interviews for this study. The exact wording and order of presentation was changed to suit particular circumstances (eg, the organisational structure of a particular bank or the circumstances of an interview).

To ensure that the questions dealt with the initial assumptions with which the study began, as part of the interview question design process each assumption was assigned a code (see Appendix 4). The codes matching the assumption about which the question was designed to gather data appear in brackets at the end of each question. However, by allowing interview subjects scope to elaborate on points, questions directed towards supplying data for particular questions also supplied data for other questions. Those questions marked 'facilitative' supported the process of data collection and were not intended to provide data in support of particular assumptions.

It should be noted that some of the questions provided data directly about the assumption, while others aimed to collect data related to an assumption indirectly. The choice of direct versus indirect questioning depended upon the degree to which it was thought that a direct question would yield a reliable answer or that the respondent would know what answer to provide. When it was thought that the respondent was unlikely to know the answer or the answer would be unreliable, the questions were framed with a view to gathering data that are indicative (ie, questions about file loss explore the factors contributing to high incidents of file loss, such as poorly organised filing areas).

A. Banks

Various banks were approached to participate in the study. As part of the research process, the researcher offered to produce a confidential report assessing the level of business risk arising from a bank's information management practices in order to convince the banks of the benefit of participating in the study. Use of the data for the purposes of the study was negotiated with each Chief Executive or their delegate. In each case it was agreed that the banks would not be identified specifically and that the study would rely on using only general references and aggregate data (eg, one of four banks surveyed . . . or one head of internal audit stated that . . .).

The strategy followed in conducting the interviews was to begin with the Chief Executive or an executive level manager who was asked to identify the bank's key legal units, business units and geographic areas and markets. Preliminary research into the bank's structure was done prior to the interview using information from annual reports and statements of account so that the information that the Chief Executive or executive manager provided confirmed and/or clarified information from other sources.

Once the key legal units, business units, etc. were identified, the remaining interviews were scheduled. In framing the guideline for the interview questions, it was envisioned that important information relating to the assumptions to be tested in this study could be gathered from a non-executive director; an audit committee; a chief financial officer responsible for overseeing the treasury management function; a head of branch operations; a head of risk management (In some cases credit risk management is dealt with separately from other risks and other risks may be

managed by an Assets and Liabilities Management Group; however, the same questions are appropriate); a head of internal audit; a head of compliance responsible for ensuring that the bank is complying to all legislative and regulatory requirements; a head of human resources; and a head of information technology. A standard set of questions, outlined below, was developed for each of these hypothetical managers and the functional areas of the bank's operations for which they are responsible. The questions and the order of their presentation was altered depending on the organisational structure and governance of a particular bank.

A.1 Chief Executive or other Executive Level Manager

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HC1, HC2)
2. Identify the key legal units, business units, geographic areas and markets. (Facilitative)
3. What role do you see information playing in terms of the competitive viability of the bank? Explain. What about information technology? Explain. (HB1, HB4, HE1)
4. What are the bank's current strategies to ensure that this information is available? (HB2, HB3, HB5, HB6)
5. What kinds of information do you rely on to meet your own management information requirements? In what form is this information when you receive it? From whom do you receive it? What do you do with it when you are finished with it? If it is kept, where and who is responsible for keeping it? (HA2, HA3, HD7, HD8, HE5)
6. Are you satisfied with the quality of the management information you receive from the bank's business units, etc? If not, how are you addressing the situation? (HA1, HA8, HD7, HD8)
7. Is there someone in the bank and, if so who, responsible for: (HD1; HD11; HD12; HD14)
 - IT systems development and/or procurement
 - IT systems implementation
 - IT systems security and backup
 - auditing the operation of IT systems
 - writing policy manuals
 - distributing policy manuals
 - version control of policy manuals
 - maintaining and storing master copies of policy manuals
 - designing filing systems for paper records
 - implementing filing systems for paper records
 - security of filing systems for paper records
 - auditing the operation of filing systems for paper records
 - mail systems and distribution
 - deciding on records retention policy
 - records disposal
 - records storage
 - disaster preparedness and recovery

8. What policies, if any, has the bank established relating to information creation and management? Are these policies part of a broader policy (eg, a credit policy or support services policy). (HA2, HA9, HD1)
9. Do you view information failures or gaps as presenting a source of business or operational risk to the bank? If so, why and to what do you attribute the cause of these information failures or gaps? Have you proposed policies or standards to address these? (HB1; HD23)

A.2 Non-Executive Director

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HC1, HC2)
2. What role do you see information playing in the competitive viability of the bank? Explain. Information Technology? Explain. (HB1, HB4, HE1)
3. What kinds of information do you rely on to meet your own management information requirements? In what form is this information when you receive it? From whom do you receive it? What do you do with it when you are finished with it? If it is kept, where and who is responsible for keeping it? (HA2, HA3, HD7, HD8, HE5)
4. Are you satisfied with the quality of the management information you receive from the bank's management and business units, etc? If not, what do you think should be done to address the situation? (HA1, HA8; HB5)
5. Do you view information failures or gaps as presenting a source of business or operational risk to the bank? If so, why and to what do you attribute the cause of these information failures or gaps? Have you proposed policies or standards to address these? (HB1; HD23)

A.3 Chairman of the Audit Committee (if an Audit Committee exists)

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HC1, HC2)
2. What role do you see information as playing in internal control of the bank? Explain. Information technology? Explain (HB1, HB4, HE1)
3. What kinds of information do you and the other Committee members rely on to meet your management information requirements? In what form is this information when you receive it? From whom do you receive it? What do you do with it when you are finished with it? If it is kept, where and who is responsible for keeping it? (HA2, HA3, HD7, HD8, HE5)
4. Are you satisfied with the information you receive from the bank's management and business units, etc from the perspective of the Audit Committee's information requirements? If not, what do you think should be done to address the situation? (HA1, HA8; HB5)

5. Do you view information failures or gaps as presenting a source of business or operational risk to the bank? If so, why and to what do you attribute the cause of these information failures or gaps? Have you proposed policies or standards to address these? (HB1; HD23)

A.4 Chief Financial Officer and Head of Branch Operations

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HC1, HC2)
2. What role do you see information as playing in the competitive viability of the bank? Explain. Information technology? Explain. (HB1, HB4, HE1)
3. What kinds of information do you rely on to meet your own management information requirements? In what form is this information when you receive it? From whom do you receive it? What do you do with it when you are finished with it? If it is kept, where and who is responsible for keeping it? (HA2, HA3, HD7, HD8, HE5)
4. Are you satisfied with the quality of the management information you receive from the bank's management and business units, etc? If not, what do you think should be done to address the situation? (HA1, HA8; HB5)
5. What kinds of records do you generate in the course of performing your daily business and core operations? (HA1, HD18)
6. In what form are these records kept? (Eg, paper or electronic) (HE3, HD9)
7. Who is responsible for keeping these records? (Eg, central filing unit or clerical staff) (HD1, HD3)
8. On average, how often do departmental staff refer to these records (eg, once per week) and for what purpose? (HD16, facilitative)
9. Do staff of any other department ever refer to these records? If so, how often and for what purpose? (HD16, HD21, facilitative)
10. How long does the department generally keep these records? Is there an established policy which sets out the period for which these records must be retained? How are retention periods decided? Who authorises them? (HD3; HD15, HD22)
11. Do you view information failures or gaps as presenting a source of business or operational risk to the bank? If so, why and to what do you attribute the cause of these information failures or gaps? Have you proposed policies or standards to address these? (HB1; HD23)

A.5 Head of Risk Management

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HC1, HC2)

2. Identify the risks that you see as being critical for the bank to manage effectively in order to remain competitive. (Facilitative)
3. For each major category of risk (eg, credit, liquidity, interest rate), how is information used in the management of that risk? (HA1)
4. From what source(s) is this information gathered (eg, bank's mainframe)? (HD9, HE3, HE4)
5. In what form is the information (eg, verbal, paper, electronic)? (HD9, HE3, HE4)
6. Are you satisfied with the quality of the management information you have at your disposal for the purposes of risk management? If not, what do you think needs to change in order to bring improvement? (HA1, HB2, HB3, HB5, HD7, HD8)
7. What kinds of records do you generate in the course of performing your daily business and core operations? (HD18, facilitative)
8. In what form are these records kept? (Eg, paper or electronic) (HD9, HE3, HE4)
9. Who is responsible for keeping these records? (Eg, central filing unit or clerical staff) (HD1, HD3, HD11)
10. On average, how often do departmental staff refer to these records (eg, once per week) and for what purpose? (HD16, facilitative)
11. Do staff of any other department ever refer to these records? If so, how often and for what purpose? (HD16, HD21, facilitative)
12. How long does the department generally keep these records? Is there an established policy which sets out the period for which these records must be retained? How are retention periods decided? Who authorises them? (HD3, HD15, HD22)
13. Is it possible and, if so, how easy, for you to pull together views of the financial status of individual customers, branches and business areas? (HA7)
14. Do you view information failures or gaps as presenting a source of business or operational risk to the bank? If so, why and to what do you attribute the cause of these information failures or gaps? Have you proposed policies or standards to address these? (HB1, HD23)

A.6 Head of Internal Audit

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HC1, HC2)
2. What types of audits do you perform (eg, branch, business function, IT)? (HB1, facilitative)
3. Briefly describe your audit methods and procedures. (HB6, facilitative)

4. For each type of risk category (eg, credit, liquidity and interest rate), what kinds of information do you rely on to monitor compliance with policies and standards and the effectiveness of internal control structures? (HA1, HA10)
5. Where or from whom do you obtain this information? (HE3, HE4)
6. In what form is the information? (Eg, verbal, paper or electronic? (HD9, HE3, HE4)
7. Are you satisfied with the quality of the information you have at your disposal for the purposes of conducting internal audits? If not, what do you think needs to change in order to bring improvement? (HA1, HB2, HB3, HD7, HD8)
8. To whom do you report your findings and in what form? (Eg, Audit Committee in the form of a report). (HA1)
9. Do you view information failures or gaps as presenting a source of business or operational risk to the bank? If so, why and to what do you attribute the cause of these information failures or gaps? Have you proposed policies or standards to address these? (HD23)
10. Do any of the standards and policies you monitor concern records and/or information (including IT)? If so, can you give examples? What is the level of conformance with these policies? (HA9, HD1, HD3)
11. Do any of these standards concern how records are to be kept or managed? (Eg, who is responsible for their safekeeping or how long they are to be retained?) (HD1, HD2, HD3)
12. Is it possible and, if so, how easy, for you to pull together views of the financial status of individual customers, branches and business areas? (HA7)
13. Describe the major categories of records that you create in conducting internal audits? (HD18, facilitative)
14. In what form are these records kept? (Eg, paper or electronic) (HD9, HE3, HE4)
15. Who is responsible for keeping these records? (Eg, central filing unit or clerical staff) (HD1, HD3, HD11)
16. On average, how often do departmental staff refer to these records (eg, once per week) and for what purpose? (HD16, facilitative)
17. Do staff of any other department ever refer to these records? If so, how often and for what purpose? (HD16, HD21, facilitative)
18. How long does the department generally keep these records? Is there an established policy which sets out the period for which these records must be retained? How are retention periods decided? Who authorises them? (HD3, HD15, HD22)
19. Do you view information failures or gaps as presenting a source of business or operational risk to the

bank? If so, why and to what do you attribute the cause of these information failures or gaps? Have you proposed policies or standards to address these? (HB1, HD23)

20. Are you satisfied that all significant bank transactions and decisions are being adequately documented? (HD18).

A.7 Head of Compliance

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HC1, HC2)
2. What role do you see information playing in terms of the competitive viability of the bank? Explain. Information technology? Explain. (HB1, HB4, HE1)
3. What kinds of information do you rely on to meet your own management information requirements? In what form is this information when you receive it? From whom do you receive it? What do you do with it when you are finished with it? If it is kept, where and who is responsible for keeping it? (HA2, HA3, HD7, HD8, HE5)
4. Are you satisfied with the quality of the management information available to you? If not, what do you think should be done to address the situation? (HA1, HA8, HB5, HD7, HD8)
5. Do you view information failures or gaps as presenting a source of business or operational risk to the bank? If so, why and to what do you attribute the cause of these information failures or gaps? Have you proposed policies or standards to address these? (HB1, HD23)
6. Are there any legal, regulatory or industry standards relating to record keeping to which the bank must adhere? (HD15)

A.8 Head of Human Resources

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HC1, HC2)
2. What role do you see information playing in terms of the competitive viability of the bank? Explain. Information technology? Explain. (HB1, HB4, HE1)
3. What kinds of information do you rely on to meet your own management information requirements? In what form is this information when you receive it? From whom do you receive it? What do you do with it when you are finished with it? If it is kept, where and who is responsible for keeping it? (HA2, HA3, HD7, HD8, HE5)
4. Are you satisfied with the quality of the management information available to you? If not, what do you think should be done to address the situation? (HA1, HA8, HB5, HD7, HD8)
5. Does the bank offer internal training programmes to its staff? If so, do any of those training programmes contain a component(s) relating to records creation/documentation or record keeping?

If so, which ones? (HC1, HC2, HD1, HD2, HD3)

6. Describe the major categories of records that you create in performing your core functions? (HD18, facilitative)
7. In what form are these records kept? (Eg, paper or electronic) (HD9, HE3, HE4)
8. Who is responsible for keeping these records? (Eg, central filing unit or clerical staff) (HD1, HD3, HD11)
9. On average, how often do departmental staff refer to these records (eg, once per week) and for what purpose? (HD16, facilitative)
10. Do staff of any other department ever refer to these records? If so, how often and for what purpose? (HD16, HD21, facilitative)
11. How long does the department generally keep these records? Is there an established policy which sets out the period for which these records must be retained? How are retention periods decided? Who authorises them? (HD3, HD15, HD22)

A.9 Head of IT

1. What is your view on the role of information and information technology in terms of the competitive viability of the bank? (HB1, HB4, HB6, HE1)
2. What percentage of total information holdings in the bank are in electronic form? (HE3, facilitative)
3. Are you in the process of converting any manual systems/records into electronic form? If so, have specific procedures for data conversion been developed and documented? (HE3, HE6, HE8)
4. What systems and applications are in use in the bank for transaction processing? For the provision of management information? Have these systems/applications mostly been developed in-house or purchased from external agents? (HE5)
5. What is your impression about how the new computer systems and applications have changed work processes (eg, more/less centralised)? (HA6, HA7, HE4, HE8)
6. What lessons have you learned from the implementation of these systems? (Facilitative)
7. What is the level of integration between existing systems? Are you satisfied with this level of system integration? (HE3)
8. Have you established strategic IT objectives for the bank. If so, what are they? (HA1, HB6)
9. Have you established bank-wide computing standards? If so, in what areas? (HD1, HD3, HE4, HE8)
10. What is the level of centralisation/decentralisation of IT development, procurement and implementation in the bank? Is this a situation that has evolved over time or is this a conscious policy objective? (HD12, HD11)

11. Can you give some examples of some of your recent IT projects? (HB6, HE1, facilitative)
12. Within the business units, what is the decision making process for the development or procurement of new computer systems or software? What is the implementation process? (HE2, HD12)
13. Is system security and integrity an important objective? If so, how is this being achieved (eg, what checks and balances have been built into systems)? Do you think that executive management shares your attitudes toward system security and integrity? (HB6, HE7, HE8)
14. Do you view linking new systems with paper source data as an important objective? If so, how is this being achieved? (HE6, HB6)
15. Do you have any areas of responsibility that are not specifically IT related? If so, what are they? (HD1)
16. With whom or what units in the bank do you liase most often? For what purpose? (HD1, facilitative)
17. Once systems are set up, who is responsible for the management of the data in them? (If not the IT unit) Is this an area that you view as appropriately an IT responsibility? (HD1, HD11)
18. Who is responsible for designing systems for the organisation and retrieval of non-electronic information systems? Is this an area that you view IT as having any responsibility for? If so, in what way? (HD1, HD12)
19. Who is responsible for the management of that percentage of information that is not in electronic form? Is this an area that you view IT as having any responsibility for. If so, in what way? (HD1)
20. Are procedures in place for data archiving. If so, provide details. (HD1, HD3, HD20, HE4)

B. FINSAC Officials

1. What is your view on the role of information in terms of the competitive viability of a bank? In terms of risk management? In terms of effective internal control? In terms of fraud prevention? What about information technology? (HE1, HG1, HH2)
2. What are your general observations about information management in Jamaican commercial banks? (HA4, facilitative)
3. What management information from banks have your required in order to perform your functions? Has this information been readily available to you on a timely basis? What is your view of the general quality of this information (eg, is it reliable)? (HA10, HF1, HF2)

C.1 Bank Supervisors – Proposed Questions

1. Can you provide a brief overview of your background? Has any of the formal training and education you have taken ever focused on information management? If so, can you recall what topics were covered? (HH1, HH2)

2. Can you provide a general overview of Bank of Jamaica's bank supervision practices? (Facilitative)
3. What kinds of information do supervisors use to determine the health of a bank (eg, supplied financial information, information from external auditors, etc.) (HA10, HF1, HF3)
4. What is your general assessment of the quality of this information? (HF1)
5. Do supervisors ever refer directly to the raw data for supplied financial information, that is, the bank's own information and records? (Facilitative)
6. How common is it to find that supervisors have inadequate info to make a proper assessment. Why? (HF1, HF2)
7. What are your general observations about information management in Jamaican commercial banks? (HA4, facilitative)
8. What is your view on the role of information in terms of the competitive viability of a bank? In terms of risk management? In terms of effective internal control? In terms of fraud prevention? What about information technology? (HE1, HG1, HH2)

C.2 Bank Supervisors – Actual Questions

As interviews were not permitted with Bank of Jamaica supervisory authorities, the researcher obtained permission to submit a list of written questions to Bank of Jamaica officials. A reply to some, but not all, of the questions was later received. The questions submitted are as follows:

1. Can you provide a brief outline of the Bank of Jamaica's supervisory practices for the period 1993-1998 with particular reference to the type of financial information required from commercial banks?
2. Can you provide an assessment from the point of view of the supervisory authorities of whether the absence of adequate financial information was a problem for supervisors in terms of being able to adequately supervise commercial banks during the period 1993-1998?
3. Can you provide an assessment of other factors that posed difficulties for supervisors in terms of being able to adequately supervise commercial banks during the period 1993-1998?
4. What measures have been taken to address/correct factors that posed previous difficulties in supervising commercial banks?
5. To what extent did the Bank of Jamaica carry out on-site inspections of commercial banks during the period 1993-1998?
6. To what extent did the banks comply with financial reporting requirements? Can you provide an assessment of the supervisory authority's confidence in the financial reports that were received?
7. What was the quality of information and documentation that was available to the inspectors from the failed banks throughout the period 1993-1998?

Appendix 2

Methodological Notes

1. Use of Qualitative Data Analysis Software (QSR NUD*IST) in the Study

This study utilises qualitative data analysis software known as QSR NUD*IST, which stands for Qualitative Solutions and Research Non-numerical Unstructured Data Indexing Searching and Theorizing. QSR NUD*IST is a computer package designed to aid users in handling non-numerical and unstructured data in qualitative analysis, by supporting processes of coding data in an index system, searching text or patterns of coding and theorising about data.

QSR NUD*IST supports the management of qualitative sources of evidence. Those used in this study include: verbatim transcriptions of tape recorded interviews and conference proceedings; researcher's interview notes; notes on bibliographic sources; full text online journal articles and web pages; notes on and excerpts from standards, policies, procedures, regulations, and statutes; and researcher's analytic notes.

QSR NUD*IST also consists of an indexing system. The indexing system is comprised of nodes, which serve as containers for thoughts about the data. Nodes store the index categories constructed by the researcher and by the system. Within the

node is stored information such as its title, definition, a memo of ideas about it, and references to the parts of documents coded at the node.

There are four types of nodes in QRS NUD*IST. Free nodes and Index Tree nodes are constructed by the researcher, while Text Search and Index Search nodes are system generated. The index system can contain any number of nodes, at which the researcher can do any amount of coding of documents and sorting of ideas by:

- Creating Free Nodes (nodes which are free of structure) for unconnected ideas. Free nodes support the application of a Grounded Theory methodology by allowing the researcher to create as many new nodes as necessary to reflect emergent themes in the research data.

- Storing ideas in a hierarchical Index Tree to help organise data, clarify concepts and store their relationship. For example, this research project used the assumptions outlined in chapter one as the basis of the first generation of Index Tree nodes.

The process of analysis included several distinct steps. First, it involved importing all sources into the database, which then contained the full text of the document or annotations of it. The researcher then read and analysed documents in order to code parts of them (usually paragraphs) at an existing node in the Index Tree or create a new node in the Free Nodes area, as appropriate. The coding stage also entailed recording emerging theoretical understanding and explanations in memos at nodes.

The next stage entailed a restructuring of the index. This process was made easy by the fact that QRS NUD*IST is designed for flexible reorganisation as ideas emerge

and codes are rethought in relation to the data. The researcher first conducted a further analysis of all parts of documents coded at Free Nodes in order to incorporate them logically into the hierarchical structure of the Index Tree. Next the researcher reviewed all coding done at Index Tree nodes to determine how they fit together to support a coherent argument. Once their relationship was determined, the Index Tree was restructured again as nodes were grouped under appropriate and related chapter headings.

The final stage, which was ongoing from the point of the initial restructuring of the index, involved searching and exploring text and coding. QSR NUD*IST has a wide set of search tools to explore either the text of imported documents or the coding done by the researcher or the system. These tools are also linked and allow the researcher to build cumulatively on discoveries by saving the results of searches for further exploration.

Most of the analysis of the data was done by means of an exploration of the documentation associated with each node or cluster of nodes. However, in some cases it also proved useful to conduct a full text search or search by index terms to gather supporting evidence relating to a particular argument and to test the validity of emerging ideas. Both text and index searches are automatically saved by the system at Index and Text Search nodes to provide an audit trail of hypothesis development.

Text searches provided the researcher with a way of asking questions about the contents of documents, such as words people are using, recurring themes and the like. This facility was used to explore data to pursue hunches and test emerging theories or hypotheses as well as to gather material about a topic for browsing and recoding.

QSR NUD*IST can conduct a simple string search (for a string of specified characters), for example the characters in the word “record” or the word “cheque”, in order to discover what the data reveal about these objects of analysis. Additionally, it can perform any of a wide variety of complex pattern searches to ask for occurrences of any of a range of wild cards or to seek alternate spellings. This proved useful in testing hypotheses. For example, the search (record/paper) found all parts of documents containing either the word record or paper and was used to find out if interview subjects tended only to use the word record in reference to documentation in paper form.

Index searches provide ways of asking questions about categories of ideas in nodes. The index search tools in QSR NUD*IST offer an extensive set of tools for asking questions about the coding at nodes in the index system. The index search tools will perform the full range of Boolean searches, but they also provide ways to:

- Collect up material on a related topic to rethink and recode. For example, an Intersect Search (eg, find all documents coded at lack of documentation and treasury function) could be used to find all text units coded at all of a given set of two or more nodes.

-Analyse themes by using search operators that pull apart and establish patterns of coding in data. An Intersect search also could be used to test a hypothesis that can be expressed in terms of the coding at two or more nodes. For example, the search in the example above was particularly useful in finding examples of how poor quality information affected different aspects of banks' treasury operations.

There are seventeen different search operators offered by QSR*NUDIST; however, a need was found only to use the Intersect and Union searches for the purposes of this study.

2. A Discussion of the Validity of Observations about Interview Subjects' Values and Beliefs

As chapter eight explores social actors' motivations, it raises questions about the extent to which the field research data, mainly interviews, can be relied upon to reveal underlying motivations, beliefs and attitudes. The analytical approach taken in this chapter is grounded in the tradition of interpretive social science, which can be defined as the systematic analysis of socially meaningful action through the direct detailed observation of people in natural settings in order to arrive at understandings and interpretations of how people create and maintain their social worlds.¹ This approach can be traced back to German sociologist Max Weber (1864-1920) and German philosopher Wilhem Dilthey (1833-1911). In his work, *Einleitung in die Geisteswissenschaften (Introduction to the Human Sciences)*, published in 1883, Dilthey argued that human sciences rely upon an empathetic understanding, or *Verstehen*, of the everyday lived experience of people in specific historical settings.²

Thus, the arguments in this chapter come from the perspective that the field research data can be used to gain an empathetic understanding of the motivations behind individuals' record creation and keeping practices in Jamaican commercial banks.

Positivists accustomed to hard facts and observable phenomenon easily reduced to statistical representations may have some difficulty with this approach, since they consider an explanation to be true if it can be replicated. In contrast, the interpretive approach holds that a theory or description is accurate if the researcher conveys a deep understanding of the way others reason, feel, and see things. An interpretative explanation describes a social actor's point of view and attempts to translate it into a form that readers can understand.³ Clearly, then, the interpretive approach rests upon an analysis of social actor's own descriptions of their context and the meaning they ascribe to it. For the purposes of this chapter, such descriptions derive from the interviews conducted with a wide range of social actors in the Jamaican financial sector as outlined in the introduction to this study.

Nevertheless, interviews are not seen as an ideal research method.⁴ Questionnaires and participant observation generally are viewed as being more reliable and valid. Despite this, interviews represent one of the most flexible types of information as they can be used to ask people about, or reveal, their attitudes, beliefs and motives, which cannot be observed directly.⁵ Critics of this method point out, however, that this data may be neither valid nor reliable. Respondents may lie, forget, or simply not consciously be aware of their feelings, motives or behaviour. Furthermore, their

answers may be influenced by the presence of the researcher or they may consciously or unconsciously be directed by the interviewer to give certain responses. In an effort to address these shortcomings, the researcher must remain constantly vigilant and, in analysing the data, ask such critical questions as: does this subject have a reason to lie; how does this subject's account of motives and events mesh with other subjects' accounts; does this subject have all the information needed to give a full account of events; and did the interview question or the researcher's response prompt this particular answer from the subject? Every effort was made during the interview process and the data analysis carried out for this study to keep these questions firmly in mind. Despite the flaws, interview data in general, and the interviews conducted for this study in particular, still provide critical and valuable insights and perspectives on how social actors view and order their social world.

End Notes

¹ W. Lawrence Neuman, *Social Research Methods: Qualitative and Quantitative Approaches*, 4th Ed. (Needham Heights, MA: Allyn & Bacon, 2000), 70.

² Ibid.

³ W. Lawrence Neuman, 74.

⁴ M. Haralambos and M. Holborn, *Sociology: Themes and Perspectives* (London: Harper-Collins, 1996), 839-843.

⁵ The University of the West Indies, *Introduction to Sociology: Reader*, Vol. I (Bridgetown, Barbados, University of the West Indies, 1998, 23.

Appendix 3

RECORDS MANAGEMENT REVIEW FORM

This form was used during the field research as a guide and *aide de memoire* in the collection of information about Jamaican commercial bank record keeping systems. The researcher obtained answers to the questions listed on the form either during site visits at the banks or through interviews with bank officials. The alphanumerical codes appearing next to questions on the form are keyed to the central assumptions explored in the study. The particular assumption assigned to each code appears at Appendix 4.

Dept/Business Unit.: _____

1. Contact Names	Contact Positions

2. General Problem Areas: (HA1, HA8)

3. Perceived Needs: (HA2, HB5, HB6)
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4. Major Records Series (HD18)

A. Transaction Processing

1. Manual or Automated? (HE3) If Manual, go to section B. If Automated, go to section C. If mixed, complete both sections.	
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B. Manual Transaction Processing

1. Centralised system (eg, files stored together in a registry)? (HE3) If yes, evidence of breakdown (eg, files should be stored in registry but officers keep some)?	Yes/No? Yes/No
2. Mixture of centralised and decentralised? If yes, are there linkages between systems? (HD9, HE3)	Yes/No Yes/No
3. Level of duplication between record stores (eg,	

do the contents of registry files and files retained by officers overlap)? (HE3)	
4. Classification system? (HA1, HD2, HD3, HD9, HD18, HD20)	None/Partial, Registry only/Partial/Total
5. Type of classification system? (Obtain sample) (HD9)	
6. Age of classification system? (HA5)	
7. Observations re: retrieval problems? (HA1, HD5, HD6, HD9)	
8. Indexes?(Obtain samples) (HA1, HA9)	Numerical/Alphabetical/Other:
9. Data elements included in indexes? (HA1, HD9, HA7)	File title/Part No./Part dates/Location/Retention and Disposal information
10. Indexes cover both active and inactive files? (HA1, HD9)	Yes/No
11. Indexes are automated? (HA1, HA9)	Yes/No/Partial
12. Number of Registry/File Clerical staff? (HD11, facilitative)	
13. Describe positions and classification level: (HD11)	

14. Job descriptions?(HD1)	Yes/No
15. RM training? (HC3) If yes, number of staff trained, where and when?	Yes/No
16. Staff turnover? (HD4, HD7)	Yes/No
17. Registry/Filing area physically tidy? (Proxy for HA4, HA5)	Yes/No
18. Type of storage equipment/supplies?(Proxy for HA4, HA5, HD10)	Registry: Other:
19. Condition of storage equipment/supplies? (HA4, HA5, HD10)	Registry: Good/Fair/Poor Other: Good/Fair/Poor
20. Security? (HD13, HD21)	Registry: Other:
21. Comments:	

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C. Automated Transaction Processing

1. System Description (eg, platform, operating system, application software, version, network configuration) (Facilitative)	
2. Age of system?(Facilitative)	
3. In-house development? (HE5)	Yes/No
4. System inputs (Facilitative)	
5. Input procedures or protocols? (HD17, HE8)	Yes/No Describe:
6. Regular training on input procedures? (HD17, HE8)	Yes/No
7. Daily volume of transactions? (Facilitative)	

8. Transaction logs and reports? Describe. (HD17, HE8)	
9. Regular checking of transaction reports? HD17, HE8)	
10. System outputs (including regular printouts and feeds into other systems? (HE8, facilitative)	
11. Types of queries allowed (HA7, HE3)	
12. Use of passwords? (HD19, HD21, HE7)	Yes/No How changed:
13. Use of data encryption? (HE7)	Yes/No
14. Backup procedures? (HD14, HD22)	Yes/No How often: Location of backup tapes:
15. If backup procedures are in place, are backup logs maintained? (HD14, HD22, HE8)	Yes/No Observations:
16. System usage audits? (HD13, HE3)	Yes/No
17. If system is linked to external organizations via network, are there system security measures in place (eg, firewalls)? (HD13)	Yes/No

D. Management Information

1. Describe (HE5, facilitative)	
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E. Automated Management Information System

1. System Description (eg, platform, operating system, application software, version, network configuration) (Facilitative)	
2. Age of system? (Facilitative)	
3. In-house development?(HE5)	Yes/No
4. System inputs (Facilitative)	
5. Input procedures or protocols? (HD17, HE8)	Yes/No Describe:

6. Regular training on input procedures? HD17, HE8)	Yes/No
7. System outputs (including regular printouts and feeds into other systems? (HE8)	
8. Types of queries allowed (HA7, HE3)	
9. Use of passwords? (HE7)	Yes/No How often changed:
10. Use of data encryption? (HE7)	Yes/No
11. Backup procedures? (HD14)	Yes/No How often: Location of backup tapes:
12. If backup procedures are in place, are backup logs maintained? (HD14, HE8)	Yes/No Observations:
13. System usage audits? (HD13, HE8)	Yes/No
14. If system is linked to external organizations via network, are there system security measures in place (eg, firewalls)? (HD13)	Yes/No

F. Mail Management

1. Manual/Automated/Mixed? If manual, go to section G. If automated,	
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go to section H. If mixed, complete both sections. (HE3)	
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G. Manual Mail Management

1. Mail Handling System Description: (HD4, HD7)	
2. Mail registers? (HD4)	Incoming/Outgoing/Other:
3. Data elements in registers? (Obtain sample) (HD4)	Date of mail/name of sender/name of addressee/subject/file number/action officer/date of action/date action completed/other:
4. Indexes automated? (HD4)	
5. Comments:	

H. Automated Mail Management

1. System description (HD4, HD7,	
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Facilitative)	
2. Email policy? (HD1, HD3, HE4)	Yes/No
3. Use of Passwords? (HE7, HD13)	Yes/No How often changed:
4. Use of Encryption? (HE7, HD13)	Yes/No
5. Network security? (HD13)	Yes/No Describe:
6. Integration with manual records (eg, print off copy for file)? (HE3, HE6)	

I. Manual Information Distribution and Tracking

1. File Tracking System? If yes, compass of system? (HD2)	Yes/No All/Partial, registry only/Partial/Total
2. If yes, system description: (HD2)	
3. Tracking is automated? (HD2)	Yes/No
4. Loan limitations? (HD2, HD6)	Yes/No
5. Evidence of breakdown?(HD2, HD6)	Yes/No
6. If yes, describe problem areas: (HD2, HD6)	

7. Comments:	

J. Management and Storage of Semi-current Manual Records

1. Criteria for file closure? (HA1, HD3, HD20)	Yes/No
2. Span of documents on file? (HA1, HD3, HD20)	File No: File Title: Dates: File No: File Title: Dates : File No: File Title: Dates:
3. Evidence of space constraints? HD5, HD6, HD20, facilitative)	Yes/No Observations:
4. Designated closed file area(s)? If yes, where? (HD5, HD6, HD20, facilitative)	Yes/No Location(s):

5. Physical condition? (Take photos if possible) (HD5, HD6, HD20)	Good/Fair/Poor Observations:
6. Files regularly and systematically transferred to closed file area(s)? (HD3)	Yes/No
7. Records in closed file area(s) well organised? (HD5, HD6, HD20)	Yes/No
8. Standardised storage containers used? (HA1, HD5, HD6, HD20)	Yes/No
9. Tracking system? (HA1, HD5, HD6, HD20)	Yes/No
10. Listings available? (HA1, HD5, HD6, HD20)	Yes/No
11. Indexes? (HA1, HD6, HD20)	Yes/No
12. Comments:	

K. Off-site Storage

1. Is there an off-site storage area(s) (HD22)	Yes/No
2. If so, leased facility?(HD21, HD22)	Yes/No Location:
3. Assigned responsibility for operation? (HD21, HD22)	Yes/No
4. Procedures for operation? (HD1, HD3, HD21, HD22)	Yes/No
5. Procedures for records transfer? (HD1,	

HD3, HD21, HD22)	Yes/No
6. Access controlled? (HD13, HD21)	Yes/No
7. List or index to holdings? (HA1, HD22)	Yes/No
8. Turnaround time for retrieval (HA1, HD22)	

L. Non-Current Records

9. Appraisal is systematic? (HD3, HD21, HD22)	Yes/No
10. Retention scheduling in place? (HD3, HD21, HD15, HD22)	Yes/No
11. If yes, for which records? (HD3, HD21, HD22)	
12. If yes, who approves? (HD3, HD21)	
13. If no, are retention periods applied at all? If yes, how? (HD21, HD22)	Yes/No, ad hoc
14. Destructions?(HD21, HD22)	
15. If destructions have taken place, who approved?(HD21)	
16. Transfers to Archival storage? (HD22)	
17. Comments:	

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M. Disaster Preparedness and Recovery

Plan in place?	Yes / No
Covers Documents and Records?	Yes/ No/ Partial
Comments:	

N. Policy Management

1. Policies documented as a matter of course? (HA1, HA2, HA9)	Yes/No
2. Assigned responsibility for policy management? (HA1, HA2, HA9)	Yes/No
3. Procedures for policy distribution and updating? (HA1, HA2, HA9)	Yes/No
4. Regular policy review?(HA1, HA2, HA9)	Yes/No

Appendix 4

TABLE OF ASSUMPTIONS

This table lists the alphanumerical codes (used in Appendix 1 and 3) and the particular assumptions to which they relate. It also shows the source that was used to gather data about the assumption. For example, QA.1 indicates that answers to interview question (listed at Appendix 1) A.1 provided data related to this assumption, while SB.4 indicates that the Records Management Survey Form (see Appendix 3) question B.4 provided relevant data.

Code	Question	Data Source
HA	<i>Banking Operations - Records Availability and Use in Risk Management, Assessment of Financial Position and Fraud Prevention</i>	
HA1	The necessary information is available to manage risk, prevent fraud and accurately assess a bank's financial position	QA.1-Q6; A.2-Q4; A.3-Q4; A.4-Q4, Q5, Q6; A.6-Q4; A.6-Q4; A.6-Q7; A.6-Q8; A.7-Q4; A.8-Q8. S0.1; B.4; B.7; B.8; B.9; B.10; B.11; J.1; J.2; J.8; J.9; J.10; J.11; K.7; K.8; N.1; N.2; N.3; N.4
HA2	Bank shareholders, directors, managers and supervisors know what information they need	QA.1-Q5, Q8; A.2-Q3; A.3-Q3; A.4-Q3; A.7-Q3; A.8-Q3. S0.3; N.1; N.2; N.3; N.4.
HA3	Shareholders, directors, managers and supervisors use records for decision-making, to manage risks, assess their financial position and monitor banking practices	A.1-Q5; A.2-Q3; A.3-Q3; A.4-Q3; A.7-Q3; A.8-Q3.

HA4	Banks in good financial standing have better record keeping practices than those that have failed or are in poor financial health	All HD and HE questions, plus B2, C7 and D5. All survey questions.
HA5	Banks with foreign connections have better record keeping than those that are local	All HD and HE questions comparing local banks with banks with foreign connections and with UK data. A comparison of the survey data of local with foreign connected banks.
HA6	Complete financial transactions can be tracked easily through records	QA.9-Q5. All survey questions.
HA7	Information providing an integrated overview of customer, branch and business unit positions is easily accessible and reliable	QA.5-Q13; A.6-Q12; A.9-Q5. SB.7; C.11; E.8.
HA8	Due to tight regulatory control banking administrative structures are hierarchical, with highly structured vertical flows of information and consequently information often reaches the executive level of the organization too slowly or in too digested a form to be of use.	QA.6-Q7; A.2-Q4; A.3-Q4; A.4-Q4; A.7-Q4; A.8-Q4. S0.2
HA9	Internal accountability systems are clearly defined, well-documented, implemented and specify the types of records that must be kept to sustain them	QA.1-Q8; A.6-Q10 SB.8; B.11; N.1-4.
HA10	Records are more critical in dealing with situations of greater risk (eg, high end loans or valuation and sale of assets in the case of a faltering bank).	QA.6-Q4; B.3; C.3; D.1.
HB	<i>Banking Operations - Attitudes to Records Use and Management</i>	

HB1	Shareholders, directors and bank managers understand the importance of good information management practices and, in particular, good record keeping in terms of establishing accountability to manage risks, prevent fraud and monitor their financial position	QA.1-Q3; A.1-Q9; A.2-Q2; A.2-Q5; A.3-Q2; A.3-Q5; A.4-Q2; A.4-Q11; A.5-Q11; A.6-Q2; A.6-Q19; A.7-Q2; A.7-Q5; A.8-Q2; A.9-Q1.
HB2	Keeping records is not an issue as bank managers and employees will automatically want records to be kept that document their actions and decisions	QA.1-Q4; A.5-Q6; A.6-Q7.
HB3	No special systems need to be put in place to ensure that, once documented, information about actions and decisions is maintained in a retrievable and reliable form	QA.1-Q4; A.5-Q6; A.6-Q7.
HB4	Attitudes and approaches to accountability and record keeping are the same at all levels of the organizational hierarchy	QA.1-Q4; A.2-Q2; A.3-Q2; A.4-Q2; A.7-Q2; A.8-Q2; A.9-Q1.
HB5	Introduction of automated technology, that is, more computers, will automatically solve information problems for commercial banks and their regulators	QA.1-Q5; A.2-Q4; A.3-Q4; A.4-Q4; A.5-Q6; A.7-Q4; A.8-Q4. S0.3.
HB6	Useful information is seen as being in automated form, while the term records connotes inaccessible hard copy papers. Similarly, information management is seen in terms of computerization and something of value to the strategic position of the organization, while records management is seen as being primarily to do with filing and as an organizational overhead cost which may not yield value.	QA.1-Q4; A.6-Q2; A.6-Q3; A.9-Q1; A.9-Q8; A.9-Q11; A.9-Q13; A.9-Q14. S0.3
HC	<i>Banking Operations - Training of Bank Professionals</i>	
HC1	Training of banking professionals influences attitudes and approaches to the use and management of information and records in banking operations	QA.1-Q1; A.2-Q1; A.3-Q1; A.4-Q1; A.5-Q1; A.6-Q1; A.7-Q1; C.1.

HC2	Training of banking professionals covers management control systems and their relation to information management (both allocative and authoritative aspects)	QA.1-Q1; A.2-Q1; A.3-Q1; A.4-Q1; A.5-Q1; A.6-Q1; A.7-Q1; A.8-Q1; C.1.
HC3	Staff responsible for record keeping have appropriate qualifications and training (eg, suitable training in records management)	SB.15
HD	<i>Banking Operations - Information and Records Management Practices</i>	
HD1	Responsibility and authority for record keeping is clearly designated and documented at all levels and these policies are being implemented	QA.1-Q7; A.1-Q8; A.4-Q7; A.5-Q9; A.6-Q10; A.6-Q11; A.6-Q15; A.8-Q5; A.8-Q8; A.9-Q9; A.9-Q15; A.9-Q16; A.9-Q17; A.9-Q18; A.9-Q19; A.9-Q20. SB.14; H.2; K.4.
HD2	File control and tracking procedures have been articulated, documented and implemented	QA.6-Q11; A.8-Q5. SB.4; I.1; I.2; I.3; I.4; I.5; I.6.
HD3	Guidelines on the creation, maintenance, use and disposition of records have been articulated, documented and are being implemented	QA.4-Q7; A.4-Q10; A.5-Q9; A.5-Q12; A.6-Q10; A.6-Q11; A.7-Q15; A.7-Q18; A.8-Q8; A.8-Q11; A.9-Q9; A.9-Q20. SB.4; H.2; J.1; J.2; J.6; K.4; K.5; L.9; L.10.
HD4	Correspondence is delivered, actioned and filed promptly	SB.16; G.1; G.2; G.3; G.4; H.1.
HD5	Incidents of misfiling are low and of little consequence	SB.7; J.3; J.4; J.5; J.7; J.9; J.10; J.11.

HD6	Incidents of file loss are low and of little consequence	SB.7; I.4; I.5; J.3; J.4; J.7; J.8; J.9; J.10; J.11.
HD7	Information flows with ease through the organization	QA.1-Q5; A.1-Q6; A.2-Q3; A.3-Q3; A.4-Q3; A.5-Q6; A.5-Q7; A.7-Q3; A.7-Q4; A.8-Q4. SB.16; G.1; H.1.
HD8	Officers appropriately share relevant information and information systems support such sharing	QA.1-Q5; A.2-Q3; A.3-Q3; A.4-Q3; A.5-Q6; A.6-Q7; A.7-Q3; A.8-Q3.
HD9	Valuable information can easily be retrieved using one integrated source in one medium	QA.4-Q6; A.5-Q4; A.5-Q8; A.6-Q6; A.8-Q7. SB.2; B.4; B.5; B.7; B.9; B.10.
HD10	Poor or unethical organizational culture spawns poor or unethical record keeping subcultures. Alternatively, poor and unethical record keeping is a sign of poor or unethical organizational cultures	All questions in comparison with data indicative of fraud or other unethical behaviour from other sources (eg, newspaper reports).
HD11	The organizational structure is designed with a clear distinction between specialist record keeping staff and users	QA.1-Q7; A.6-Q15; A.8-Q8; A.9-Q10; A.9-Q17. SB.12; B.13.
HD12	The organizational structure is designed so that at the operational level there is a separation between record keeping, custody of assets and system design	QA.1-Q7; A.9-Q10; A.9-Q12; A.9-Q18.
HD13	Systems and procedures are in place to prevent unauthorized access to record stores	SB.20; C.6; C.17; E.13; E.14; H.3; H.4; H.5.

HD14	Disaster preparedness and recovery plans are clearly defined and documented	QA.1-Q7. SC.14; C.15; E.11; E.12; M.1-3.
HD15	The bank is compliant with legal and administrative requirements for record keeping and has an awareness of best practices for their business sector	QA.4-Q10; A.5-Q12; A.6-Q18; A.7-Q6; A.8-Q11. SL.10.
HD16	Record keeping systems are exclusively employed in the normal course of business	QA.4-Q8; A.4-Q9; A.5-Q10; A.5-Q11; A.6-Q16; A.6-Q17; A.8-Q9; A.6-Q10. Data from newspaper reports relating to fraudulent activities.
HD17	Record keeping systems process information in a fashion that assures that the records they create are credible	All SB questions; C.5; C.6; C.8; C.9; E.5; E.6.
HD18	The bank creates records to document all business transactions so that that documentation is identifiable, complete and meaningful	QA.6-Q13; A.6-Q20. S0.4.
HD19	Only authorized persons originate records for particular transactions	Only the probability of this assumption can be tested. All questions related to assumption HD13 should provide relevant data.
HD20	Records continue to reflect content, structure and context over time	QA.9-Q20. SJ.3; J.4; J.5; J.9; J.10; J.11; J.20.

HD21	Records are preserved in a manner which protects them from accidental or intended damage or destruction and from any modification over time	QA.4-Q9; A.5-Q11; A.6-Q17; A.8-Q10. SB.20; L.9; L.10; L.11; L.12; L.13; L.14; L.15.
HD22	Records are preserved in a manner that permits their use over time	QA.4-Q10; A.5-Q12; A.6-Q18; A.8-Q11. SC.14; C.15; K.1; K.2; K.3; K.4; K.5; K.7; K.8; L.10; L.11; L.13; L.14; L.16.
HD23	Risk associated with organizational record keeping practices are known and have been assessed	AA.1-Q9; A.2-Q5; A.3-Q5; A.4-Q11; A.5-Q14; A.6-Q19; A.7-Q5.
HE	<i>Banking Operations - Information and Records Management Practices - Technology Use</i>	
HE1	Introduction of computer technology is more focused on the allocative aspects of information and records (eg, information as resource to improve the overall efficiency and effectiveness of the business) than on the authoritative aspects of information and records (eg, information as evidence of business transactions in support of internal management control and accountability)	QA.1-Q3; A.2-Q2; A.3-A2; A.4-Q2; A.7-Q2; A.8-Q2; A.9-Q1; B.1.
HE2	New computer systems have been introduced as separate projects and as a result there is little coordination between them	QA.9-Q12.
HE3	Fragmentation of data stores (both electronic and hard copy) makes it difficult to pull together important information	QA.4-Q6; A.5-Q5; A.5-Q8; A.6-Q6; A.6-Q14; A.7-Q3; A.8-Q7; A.9-Q2; A.9-Q3; A.9-Q7. SA.1; B.1; B.2; B.3; C.11.

HE4	Bank management and employees create and manage records in electronic form according to their own practices	QA.5-Q4; A.5-Q5; A.5-Q8; A.6-Q5; A.6-Q6; A.6-Q14; A.8-Q7; A.9-Q7; A.9-Q5; A.9-Q9; A.9-Q20. SH.2.
HE5	MIS systems tend to be ad hoc and user developed and implemented	QA.3-Q3; A.2-Q3; A.3-Q3; A.4-Q3; A.7-Q3; A.8-Q3; A.9-Q4. SC.3; E.3.
HE6	Computer systems, particularly MIS, are linked to the paper-based records from which their data are drawn so that the data may be verified easily	QA.9-Q3; A.9-Q.14. Survey questions related to automated transaction processing and MIS.
HE7	Personal user security systems have been established	QA.9-Q13. SC.12; C.13; E.9; E.10.
HE8	Appropriate input, processing and output controls have been clearly established	QA.9-Q3; A.9-Q5; A.9-Q9; A.9-Q13. SC.5; C.6; C.8; C.9; E.5; E.6; E.7; E.12; E.13.
HF	<i>Banking Supervision - Records Availability and Use</i>	
HF1	The necessary information is available to effectively monitor commercial banking operations to the extent required under Jamaican law	QB.3; C.3; C.6; D.1; D.2.
HF2	Bank inspectors/supervisors/auditors experience problems in accessing the necessary information to monitor commercial banks, in particular to verify the integrity of financial reporting	QB.2; C.6; D.3; D.4.

HF3	The existing Jamaican bank supervision framework is sufficiently explicit on the subject of sources of information to support effective supervision	Legislation and regulatory documentation coupled with data from QB.3; C.3.
<i>HG</i>	<i>Bank Supervision - Attitudes to Records Use and Management</i>	
HG1	Bank inspectors/supervisor/auditors are aware of the importance of good internal information management practices, particularly good record keeping, in commercial banks in terms of managing risks, preventing fraud and monitoring the bank's financial status	QB.1; C.8; D.7.
<i>HH</i>	<i>Banking Supervision - Training of Supervision Professionals</i>	
HH1	Training of banking supervisory professionals influences attitudes and approaches to the use of management information and records in banking operations	QC.1.
HH2	Bank supervisors see poor records and record keeping as an important aspect of operational risk which they must monitor	QC.2.

Appendix 5

Comparative Analysis of Neo-Classical Economic, New Institutional Economic and Old Institutional Economic Theories¹

Characteristic	Neo-Classical Economics	New Institutional Economics	Old Institutional Economics
1) Basic Premises	<p>-presupposes the existence of perfectly rational actors</p> <p>-holds that the market is perfectly competitive. It operates by means of voluntary transactions on an equal basis between large numbers of autonomous, fully informed entities motivated by the desire to maximize their profits and which are able to enter and leave the market freely</p> <p>-Walrasian general equilibrium theory – of this model Ronald Coase has written that the model “only lives in the minds of economists but not on earth.”</p> <p>-there is no reason for institutions in the original model; however, Stein points out that in the more relaxed structural adjustment version, there is a need to legally ensure property rights and ensure the stability of currency through monetary policy (hence a role for the state and a central bank to control money supply)</p>	<p>-starts within the neo-classical framework (eg, the assumption of scarcity and therefore of competition) and accepts the naturalism of markets (eg, once market imperfections are removed, then markets will operate perfectly)</p> <p>-originated with a need to explain phenomena unexplained by neo-classicism, such as the existence of organizations and the seemingly irrational decisions of what were supposed to be perfectly rational actors under neo-classicism</p> <p>-has challenged the dominant role ascribed to the market by neo-classicism</p> <p>-focus on market imperfections caused by production externalities, public goods, imperfect information (which causes transaction costs) and the free-rider (or agency) problem.</p> <p>-institutions and organisations are the way in which economies cope with market imperfections (Coase wrote about the nature of the Firm and North wrote about the importance of property rights as an institution)</p> <p>-North has challenged the ‘rationality postulate’ of neo-classical economics; he argues that individuals make choices on mental models which are culturally derived, differ widely, are not easily changed and do not give rise to just one determinate position as in general equilibrium theory</p>	<p>-reject the emphasis on rational-maximising self-seeking behaviour which is at the heart of neo-classicism and NIE; does not accept the naturalism of markets (eg, markets operate in specific historical,cultural contexts and not according to universal principles)</p> <p>-asserts that institutions are less instrumental and should be viewed more as settled habits of thought common to the generality of man (Stein)</p> <p>-Stein is critical of NIE because of what he sees as its inability to provide an adequate explanation of firm-level innovation</p> <p>-OIE is presented as “descriptive, holistic and behaviourist” while the NIE is seen as formalist and reductionist</p> <p>-not a sharp line between NIE and OIE – the jury is still out on the differences</p>
2) Proponents	<p>Walras and Pareto (general equilibrium theory of markets)</p> <p>Abraham Wald</p> <p>Arrow and Debreu</p>	<p>Ronald Coase, who won the 1991 Nobel Prize for Economics; Douglass C. North; Oliver Williamson</p>	<p>Rooted in North American traditions and associated with the work of Thorstein Veblen, John R. Commons, Clarence Wendell and Allan Grunchy. More recently Geoffrey Hodgson, William Lazonick and Howard Stein have been proponents.</p>

¹ Summarized from John Harriss, Janet Hunter and Colin M. Lewis, *The New Institutional Economics and Third World Development* (London: Routledge, 1995).

Characteristic	Neo-Classical Economics	New Institutional Economics	Old Institutional Economics
3) Ideas about "firms" /organisations	<p>-firms are not necessary since the market operates perfectly</p> <p>-only emphasis is on privatising state-owned companies</p> <p>-in general equilibrium theory the firm was "a strange bloodless creature without a balance sheet, without any visible capital structure, without debts, and engaged apparently in the simultaneous purchase of inputs and sale of outputs at constant rates."</p>	<p>-firms are necessary to minimize transaction costs</p> <p>-Williamson developed a theory of what constitutes transaction costs, based on the work of Herbert Simon and Kenneth Arrow; Arrow argued that market imperfections can arise from the problem of information (information asymmetry) – when the integrity of one party to a transaction is suspect, transaction costs will rise (Williamson calls this opportunism) and argues that various governance structures in the firm mitigate against information problems; Simon emphasises that given the problem of the limited computational power of the human brain and limited knowledge, decisions are taken from a small set of prerogatives and these cognitive limitations introduce transaction costs – Williamson's thesis is that both problems work together to create the transaction costs that make the firm necessary. There are two branches to transaction costs: governance, the capacity of firms to organise to adapt to disturbances in the external environment of the firm, and the measurement branch, which is the capacity to bring goods and services to the market at a cost which is justified by the price "Thus what links opportunism and unbounded rationality is uncertainty created by both the cognitive limitations of corporations and the unforeseen disturbances which create opportunities for one party to the exchange to take advantage of the other."</p>	<p>-firms are culturally and historically specific – "settled habits of thought common to the generality of man"</p> <p>-very critical of the idea of the firm as transaction cost minimisers – firms are seen as social institutions that provide a refuge from the market "They embody the habits and routines that allow corporations to deal with the complexity of production and exchange and to develop expectations of the future in a world of uncertainty."</p> <p>-does not accept the premise that human nature is basically self-serving. Thus, when opportunism does surface the successful firm will not rely on supervision and hierarchy but on developing trust and loyalty</p> <p>-Stein argues that NIE does not provide an explanation for how firms innovate, whereas OIE does – in this regard he talks about productive (internal) and competitive (external markets) uncertainties and how firms deal with these to innovate</p>
4) Ideas about the State	<p>-no role for the state – state intervention is viewed as the source of market imperfections</p>	<p>-"For North Third World countries provide examples of anti-development frameworks. Statist regulation, ill-defined property rights and other constraints restrict rather than stimulate economic activity. These conditions result in rent-seeking and redistribution, not rising productivity. Organisations that operate within Third World institutional frameworks are not inefficient; they are efficient at making a society more unproductive." The notion of the 'predatory state'</p>	<p>-sees a much wider scope for state intervention – eg, in discussing property rights does not just see the state and supplying a legal system to regulate private ownership, but also accepts that in some African countries, because of the way local institutions have evolved, state ownership is accepted as being much more legitimate</p>

Characteristics	Neo-Classical Economics	New Institutional Economics	Old Institutional Economics
5) Ideas about money and financial institutions	-viewed only as a payment mechanism which has no real impact on the supply side of the economy and therefore only provides price stability	-rejects the notion that money is only a form of payment and that capital and financial markets are mere auctions -Banks do not simply allocate credit to those that are willing to pay the highest rate of interest; there are real questions of the institution arrangement for investment – critical of neo-classical approach because it ignores questions of the optimal design of financial structures in terms of avoiding agency problems and the like	-argue that money was in existence long before the development of markets and therefore is not just a form of payment in the neo-classical envisioned perfect barter system
6) Development strategies that flow from basic premises	-provides the theoretical basis for structural adjustment -viewed the superiority of the private sector as axiomatic “the emphasis has been on specifying conditions of deregulation and privatisation in structural adjustment programmes, which is consistent with the neo-classical notion that impediments created by the state are the single most important factor inhibiting the expansion of the private sector.” – these ideas are reflected in the 1983 World Development Report, according to Stein, which attributed price distortions to the state and sought to reduce the state’s interference so markets could operate efficiently -see Stein for a summary of how structural adjustment policies mirror neo-classical theory -Structural adjustment aims to provide price stability through proper regulation of money supply; this involves financial liberalisation and strengthening of the institutions that regulate money supply; this can best be achieved by allowing the commercial banking sector to operate free of government intervention while encouraging the development of bond markets to control the money supply through open market operations; beyond this the monetary authorities should concentrate on regular audits and enforcing reserve ratios; state intervention should be reduced by privatising banks, prohibiting the government allocation of credit and curtailing the use of the commercial banking sector to finance government debt (Stein, 117 quoted a 1989 World Bank Report)	-reintroduces a role for the state as a regulator of rules of the game	-role of the state most go well beyond simply guaranteeing the money supply – state needs to encourage the development of financial institutions that can provide credit for growth and expansion -generally sees a much larger role for the state (eg. accepts that certain forms of state ownership are preferable to private ownership)
7) Criticisms	See criticism under basic premises of NIE and OIE -also Toye points out that it never resolved the passion/self-interest dilemma which NIE does through the notion of “appropriate institutions” to control the passions for the common good	-tautological (eg, organisations and institutions reduce transaction costs because reducing transaction costs is their function) -better at diagnoses than prescribing cures -does not cost out alternative solutions	See above under basic premises

Appendix 6

Operational Impact Assessment of Records Creation and Keeping Practices in Failed Jamaican Commercial Banks

This appendix summarises the discussion in chapter 7 relating to how the failed banks' record creation and keeping practices affected their accountability systems, operations, and competitive viability.

Decision Making	The quality of management decisions was weakened by the fact that record creation and keeping practices undermined the creation of records needed to support the effective operation of accountability systems. Directors and managers depended on these systems for accounting and management information on which they could base their decisions.
Credit Risk Management	Weaknesses in the documentation and communication of policies and procedures undermined effective credit risk management. Credit risk management also was weakened by failure to book loans and guarantees, which presented a distorted picture of the banks' asset portfolios. Gaps and errors in customer information files also prevented banks from keeping adequate track of customers' credit exposures and histories. System related errors resulted in additional distortions due to accounting errors that undermined the banks' efforts to track past due and non-performing loans. Missing and incomplete loan documentation made recovery of credit-related losses difficult to impossible.
Market Risk Management	The banks' management information systems were not geared toward tracking the impact of interest and foreign exchange rate fluctuations on their financial positions and risk exposures. Even so, the unreliability and lack of timeliness resulting from the banks' records creation and keeping practices undermined the degree to which the banks' accounting and

	management information could be used to manage market risks.
Cost of Operations	Cost of operations was pushed up due to ineffective cash flow management, which was itself as a result of poor quality accounting and management information. Failure to manage liquidity effectively resulted in non-compliance with statutory reserve ratios for which there were substantial financial penalties and excess expenses incurred by having to purchase funds to cover liabilities at higher rates. In addition, poor documentation of investments, loans and guarantees all resulted in direct losses for the banks.
Cash Flow and Liquidity Risk Management	Due to weaknesses in accounting and management information that prevented the banks from monitoring the financial positions and risk exposures coupled with lack of sophisticated reporting in support of asset and liability management (ALM) – which was a function both of management failure to establish ALM processes and system limitations - it was difficult for them to assess the level of liquidity they required to cover operating expenses, daily liabilities and, very importantly, unexpected liabilities due to operating losses.
Capital Adequacy	Losses due to ineffectively managed risks eventually ate into the banks' capital bases.
Proofing and Reconciliation	Proofing and reconciliation of transactions, necessary to ensure the integrity of the banks' accounting and management information, was hampered by missing or irretrievable source documentation. One manifestation of this problem was the high number of suspense and unreconciled accounts discovered in the failed banks.
Internal Control and Audit	The results of this study provided no specific examples of internal auditors not being able to complete an audit due to the absence or poor quality of records, as in Akotia's public sector-based research. However, it is easy to

	<p>surmise that internal auditors in the failed banks must have experienced such difficulties because the banks' policies and procedures were either missing or disorganised and source documents often were a mess. Auditors tended to point to areas of concern such as a high number of suspense accounts, losses due to fraud or in connection with trades, which they attributed in part to poor record keeping.</p>
Corruption and Fraud Prevention	<p>As in the public sector, the results of this study show that prevention of corruption and fraud is weakened by ineffectively managed records creation and keeping practices. Increasing decentralisation of information processing, information and incentives created a situation in which it was difficult for directors and managers to keep track of all the banks' transactions and commitments and to monitor whether these were in compliance with policies and procedures. Creation, distribution and storage of policies and procedures had deteriorated as the banks grew, creating confusion about what was acceptable practice and making it more difficult to hold officials to account. Moreover, in many cases directors and managers simply could not obtain the management information they needed to monitor subordinates effectively. Gaps, errors and inconsistencies in the creation of source documents and entry of records of transactions in manual and computerised accounting systems rendered much of the information on which directors and managers relied untrustworthy and inaccessible on a timely basis. In addition, functional limitations of computer systems prevented directors and managers from obtaining with ease management reports that might have revealed fraudulent activity. The general disarray of records and fragmentation of records creation and storage lent itself to transactional irregularities. It</p>

	<p>also practically guaranteed that perpetrators would not be detected. Cases of failure to create documents and deliberate destruction of records clearly indicate that there were no mechanisms in place to ensure that transactions were properly documented and that that documentation was safeguarded. Finally, microfilming practices led to missing copies of cheques that prevented the banks from pursuing cases of fraud.</p>
Financial Reporting	<p>Here again the results of this study match those of the public sector studies. Financial reports relied on the same accounting data as management reporting. Consequently, the same problems with trustworthiness and timeliness that affected management information also affected financial reporting to shareholders and regulators. The quality of this information determined what shareholders and regulators understood about the banks' operations. In many cases, the information was quite misleading though, as discussed in chapter eight, not necessarily always deliberately so. The quality of financial reporting highlights the dangers if regulators rely solely on this type of information in their supervisory practices.</p>

Appendix 7

Summary of Records Management Policies and Procedures in Studied Jamaican Commercial Banks

Area of Coverage	Bank A (Failed Bank)	Bank B (Failed Bank)	Bank C (Failed Bank)	Bank D (Failed Bank)	Bank E (Viable Bank)
Date of Policy	July 1996	May 1997	May 1996 (Note that this policy is a direct copy of BNS Canada's policy)	Draft policy only dating from October 1998	June 1991 - Administration Policy on Records and Files
Scope of Coverage	customer records and internal bank transactions - hard copy only	operations hard copy records only	records of branches, Data Centre and General Manager's Office	vouchers, registers, credit, customer service and other department files, microfilms, video cassettes, computer reports, computer tapes/cartridges	Prime records only, defined as essential records
Responsibilities	"It is the responsibility of each Branch and Department Manager and Operations Personnel to become familiar with the Types of records generated and their appropriate handling"	No	"Branch Managers/Department Heads must designate an individual to be responsible for filing and the orderly maintenance of all records and ensure that the filing system/records management procedures is reviewed on a quarterly basis for compliance."	Yes - extensive statement to the effect that adopting and maintaining records retention procedures rests with the department head to be coordinated by designated department employees. Role of internal auditors and compliance officers also stated	"Senior Branch Operations Officer responsible for ensuring that current and non-current records receive proper care" and for establishing a schedule for records Country Corporate Officer responsible for making adequate provisions for the storage of old records
Records Creation	No	No	No	No	No
Filing while Active	No	Yes - vouchers to be filed in numerical order	No	No	Yes - storage and access only
Retention Scheduling	Yes	Yes	Yes	No	Yes - policy provides for the establishment of a Records and Files Committee. Fairly extensive with an emphasis on legal compliance. Also of note: only bank to have specified the documentation and control of retention decisions
Transfer of Inactive Records	Yes - including detailed procedures for boxing, labelling and use of Transmittal Form	No	Yes	Yes - not as detailed as Bank A and B	Yes

Operation of Secondary Storage Facility	Yes - including operation of a Records Centre Database and for the conduct of a periodic record centre audit	No	Yes - though not as extensive as Bank A	No	Yes
Retrieval of Records from Secondary Storage	Yes - including use of Records Request Form	No	Yes	No	Yes
Destruction of Records	Yes - including a statement that the record owner must authorize destruction by signing off on a Quarterly Branch/Department Retention Report	No	Yes - including use of forms for requesting and authorizing destructions	Yes - not as detailed as Bank A and B	Yes
Microfilming of Records	No	No	No	No	Yes - extensive provisions
Security of Records	No	No	No	No	Yes
Vital Records Protection	No	No	No	Yes	Yes - separate policy on business resumption - specifies duplication by microfilming
Sanctions for Non-compliance	Only for causing Records Centre overflow and congestion which were to result in charges to the Branch/Department	No	No	No	No

Appendix 8

A Record Keeping Risks and Requirements Self-Assessment Tool

Introduction

The author originally developed a version of this assessment tool during a records management consultancy for Grace Kennedy & Co. Ltd of Kingston, Jamaica. Over the course of the research for this study, the usefulness of such a tool in assessing the information requirements of banks and other types of organisations became increasingly apparent. Subsequently, the author has made modifications to the assessment tool based on information derived from the field research, ongoing consulting experience and feedback from the staff of Barclay’s Records Services on the usefulness and layout of the tool.

It should be noted that the International Records Management Trust also has developed a records management assessment tool as part of its *Principles and Practices in Managing Financial Records*.¹ The IRMT assessment tool and the assessment tool presented below are complimentary and can be used in conjunction with one another. It is recommended that the assessment tool presented below first be used to determine organisational records-related risks and requirements. The IRMT assessment tool then can be used to determine if organisation record keeping systems possess the appropriate infrastructure and resources to meet identified organisational information and record keeping requirements. As the IRMT assessment tool was developed for public sector agencies, some adaptation may be required to apply the tool in private sector contexts.

The Assessment Methodology

The board and management of a commercial enterprise ultimately are responsible for assessing the enterprise’s accounting and management information requirements. Such an assessment becomes particularly critical to the competitive viability of an enterprise when the external environment is volatile or if the enterprise is expanding the size or scope of its business. Although the board and management of an enterprise are ultimately responsible for assessing its information requirements, it is more manageable to have key staff in each of the enterprise’s business areas conduct an information requirements and risks review, facilitated by an appropriate member of senior management.

Steps in the Self-Assessment	Worked Examples
Step 1. Senior management should identify and rank key business functions. Business functions ranked most important	The following shows possible rankings for a hypothetical set of bank business functions:

¹ KimberlyBarata, Piers Cain and Dawn Routledge. *Principles and Practices in Managing Financial Records: A Reference Model and Assessment Tool* (London: International Records Management Trust, 2001).

<p>should be given a score of five and those that are least important should receive a score of one. Note that this step may be skipped if management wishes to concentrate the self-assessment on a specific business function.</p>	<table border="1"> <thead> <tr> <th>Business Function</th><th>Ranking</th></tr> </thead> <tbody> <tr> <td>Internal Audit</td><td>3</td></tr> <tr> <td>Branch Banking Operations</td><td>5</td></tr> <tr> <td>Commercial Credit</td><td>5</td></tr> <tr> <td>Financial Control</td><td>5</td></tr> <tr> <td>Treasury Mgmt.</td><td>5</td></tr> <tr> <td>Planning and Budgeting</td><td>4</td></tr> <tr> <td>Accounting and Analysis</td><td>4</td></tr> <tr> <td>Human Resources Analysis</td><td>3</td></tr> <tr> <td>General Services</td><td>2</td></tr> <tr> <td>Legal</td><td>3</td></tr> </tbody> </table>	Business Function	Ranking	Internal Audit	3	Branch Banking Operations	5	Commercial Credit	5	Financial Control	5	Treasury Mgmt.	5	Planning and Budgeting	4	Accounting and Analysis	4	Human Resources Analysis	3	General Services	2	Legal	3
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<p>Step 2. Step 2 entails identifying and ranking all of a business function's key business processes. The relative importance of the business process should be ranked from one to five on the basis of how critical that process is to the realisation of the aims and objectives of the business function. Business processes ranked most important should be given a score of five and those that are least important a score of one.</p>	<p>The following shows possible rankings for the above-listed Commercial Credit area:</p> <table border="1"> <thead> <tr> <th>Business Process</th><th>Ranking</th></tr> </thead> <tbody> <tr> <td>Credit Policy Admin.</td><td>5</td></tr> <tr> <td>Credit Extension</td><td>5</td></tr> <tr> <td>Credit Servicing</td><td>4</td></tr> <tr> <td>Credit Collection</td><td>3</td></tr> </tbody> </table>	Business Process	Ranking	Credit Policy Admin.	5	Credit Extension	5	Credit Servicing	4	Credit Collection	3												
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Credit Collection	3																						
<p>Step 3. Following identification of key business processes, the records/information required to support these processes should be assessed in terms of the type of information required to (1) complete all transactions associated with the business process and (2) effectively support internal and external accountabilities and controls for those transactions. The type and quality of records required will vary according to the type of commercial activity in which the enterprise is engaged and the particular manner in which it conducts its business. Directors and managers of commercial enterprises therefore can only rely to an extent on industry guidelines or standards to determine their information requirements, as these may overlook important requirements that are specific to their particular enterprise.</p>	<p>The following lists possible types of information needed to meet the information requirements of the Credit Extension business process. Note that the bulk of this information should be found in the Credit File.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Details of each transaction, including the parties to the loan, advance or other credit exposure (Note: must be careful to ensure that the parties are identified as this may affect the ability to recover on a non-performing asset. Also must obtain full name, address and contact info for all borrowers which must be kept up to date) and also whether and, if so, to whom sub-participated, the amount and currency; the contract, roll-over, value and settlement or repayment dates; the contractual interest rates of an interest rate transaction or commitment; the contractual exchange rate for a foreign exchange transaction or commitment; the contractual commission or fee payable or receivable together with any other related payment or receipt; the nature and current estimated value of any security for a loan or other exposure; the physical location and documentary evidence of such security; the nature and book value of any asset upon which the loan or other credit exposure is secured; information about margins of securities accepted for collateral as a ratio of asset value to value of security. All securities documentation must be 100% perfected.</p> </div>																						

	<table><tr><td>Information indicating the full extent of credit facilities extended to each individual client and the status of those facilities; also information relating to the full extent of credit guaranteed by a single individual</td></tr><tr><td>Details of any off-balance sheet asset origination, sale and servicing of various types of credit, including contractual fee arrangements</td></tr><tr><td>Details of credit limits authorized by management that are appropriate to the type, nature and volume of the business undertaken. Where relevant the limits should include counterparty, industry sector, country, settlement, liquidity, interest rate mismatch and securities position limits.</td></tr><tr><td>Information concerning the factors considered, the analysis undertaken and the approval or rejection by management of a loan or other credit facility</td></tr><tr><td>On a memorandum basis, details of every transaction entered into in the name of and on behalf of another party on an agency or fiduciary basis where it is agreed that the bank is not legally or contractually bound by the transaction</td></tr><tr><td>Reports to management on the number, type, industry, counterparty, amount and other details of credit facilities granted to track various risks</td></tr></table>	Information indicating the full extent of credit facilities extended to each individual client and the status of those facilities; also information relating to the full extent of credit guaranteed by a single individual	Details of any off-balance sheet asset origination, sale and servicing of various types of credit, including contractual fee arrangements	Details of credit limits authorized by management that are appropriate to the type, nature and volume of the business undertaken. Where relevant the limits should include counterparty, industry sector, country, settlement, liquidity, interest rate mismatch and securities position limits.	Information concerning the factors considered, the analysis undertaken and the approval or rejection by management of a loan or other credit facility	On a memorandum basis, details of every transaction entered into in the name of and on behalf of another party on an agency or fiduciary basis where it is agreed that the bank is not legally or contractually bound by the transaction	Reports to management on the number, type, industry, counterparty, amount and other details of credit facilities granted to track various risks															
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<p>Step 4. For each type of information or record, assess the quality characteristics that are required to meet the requirements of completing and controlling the transaction. This step will entail ranking the relative importance of the quality characteristic from five for most important to one for least important. The worked example offers a list of possible quality characteristics though these may not reflect the requirements of particular organisations and therefore should not be taken as representing a definitive list of quality characteristics.</p>	<p>The following shows possible quality characteristics and rankings for Credit Files:</p> <table><tr><th>Quality</th><th>Ranking of Quality Importance</th></tr><tr><td>Created</td><td>5</td></tr><tr><td>Completeness</td><td>5</td></tr><tr><td>Accuracy</td><td>5</td></tr><tr><td>Authenticity</td><td>5</td></tr><tr><td>Accessibility</td><td>4</td></tr><tr><td>Comparability</td><td>2</td></tr></table>	Quality	Ranking of Quality Importance	Created	5	Completeness	5	Accuracy	5	Authenticity	5	Accessibility	4	Comparability	2							
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<p>Step 5. For each quality characteristic, identify the degree to which it is satisfied by current record creation and keeping systems. Those quality characteristics that are fully satisfied should receive a ranking of five, while those least satisfied should receive a ranking of one. Time should also be taken at this stage to analyse the underlying reasons why quality characteristics are not being satisfied if this is the case.</p>	<p>The following shows possible levels of satisfaction with the degree to which each quality characteristic is being met:</p> <table><tr><th>Quality</th><th>Ranking of Quality Importance</th><th>Ranking of Level of Satisfaction</th></tr><tr><td>Created</td><td>5</td><td>4</td></tr><tr><td>Completeness</td><td>5</td><td>3</td></tr><tr><td>Accuracy</td><td>5</td><td>3</td></tr><tr><td>Authenticity</td><td>5</td><td>4</td></tr><tr><td>Accessibility</td><td>4</td><td>3</td></tr><tr><td>Comparability</td><td>2</td><td>4</td></tr></table>	Quality	Ranking of Quality Importance	Ranking of Level of Satisfaction	Created	5	4	Completeness	5	3	Accuracy	5	3	Authenticity	5	4	Accessibility	4	3	Comparability	2	4
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<p>Step 6. Step 6 consists of identifying and assessing the risks to the organisation if the information required to transact and</p>	<p>The following shows possible types of risk and the ranking of those risks for each quality characteristic:</p>																					

<p>control the area's business processes is not available or of the desired quality. Each risk should be given a ranking of from one to five based on the perceived consequences to the area or the organisation as a whole, with one being the least consequential (eg, minor loss) and five being the most (eg, devastating loss with extremely high impact). Additionally, each risk should be ranked in terms of its likelihood of occurrence, from five for most likely to occur to one for least likely.</p>	<table><tr><th>Quality</th><th>Type of Risk</th><th>Ranking of Con-sequence</th><th>Ranking of Probabilit y</th></tr><tr><td>Created</td><td>Potential for Legal Risk as loan is effectively non-existent if not documented. Also Credit Risk as loan cannot be tracked or monitored</td><td>5</td><td>1</td></tr><tr><td>Complete-ness</td><td>Legal and Credit Risk again are possible if documentation is not complete. Eg., can lead to uncertainty about the parties to a loan, the terms of the loan and an inability to track or monitor the loan</td><td>5</td><td>3</td></tr><tr><td>Accuracy</td><td>Same as above</td><td>5</td><td>3</td></tr><tr><td>Authenti-city</td><td>Documents may be altered after the fact and my not be suitable as evidence in a legal dispute</td><td>4</td><td>1</td></tr><tr><td>Accessib-ility</td><td>If file cannot be found the parties to, terms and status of the loan cannot be determined which can result in loss due to Legal and Credit Risk; slow retrieval will affect customer service</td><td>5</td><td>4</td></tr><tr><td>Comparabil-ity</td><td>Can lead to uncertainty about the quality of the loan and its legal status</td><td>3</td><td>1</td></tr></table>	Quality	Type of Risk	Ranking of Con-sequence	Ranking of Probabilit y	Created	Potential for Legal Risk as loan is effectively non-existent if not documented. Also Credit Risk as loan cannot be tracked or monitored	5	1	Complete-ness	Legal and Credit Risk again are possible if documentation is not complete. Eg., can lead to uncertainty about the parties to a loan, the terms of the loan and an inability to track or monitor the loan	5	3	Accuracy	Same as above	5	3	Authenti-city	Documents may be altered after the fact and my not be suitable as evidence in a legal dispute	4	1	Accessib-ility	If file cannot be found the parties to, terms and status of the loan cannot be determined which can result in loss due to Legal and Credit Risk; slow retrieval will affect customer service	5	4	Comparabil-ity	Can lead to uncertainty about the quality of the loan and its legal status	3	1
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<p>Step 7. Step 7 is a calculation to arrive at the Quality Level and Risk Profile for each type of information or record. First,</p>	<p>The following shows a worked example based on the data supplied above:</p>																												

<p>add up the rankings for all identified quality characteristics at Step 4. Next, add up the rankings for the degree to which the quality characteristics are satisfied at Step 4. Subtract the total for the degree of satisfaction from the total for the quality rankings. This will provide you with a figure that indicates the gap between the importance of the information/record quality characteristics and the level to which these are being satisfied. Next, add up the rankings assigned in Step 6 for risk consequences and risk probability. Add these two figures together to obtain the risk profile. Then, multiply the figure indicating the quality gap by the figure for the risk profile in order to arrive at the Quality Level and Risk Profile for each information/record type.</p> <p>Formula: (Sum of Rankings for Quality Characteristics at Step 4 – Sum of Rankings for Level of Satisfaction at Step 4) x (Sum of Rankings at Step 6) = Quality Level and Risk Profile for Each Record Type</p>	<p>A) Rankings for Qualities = 5+5+5+5+4+2=26 Minus Rankings for Level of Satisfaction= 4+3+3+4+3+4=21</p> <p>26-21=5 (Quality Level) ----- Multiplied by ----- B) Rankings for Risk Consequences 5+5+5+4+5+3=27 Plus Rankings for Risk Probabilities 1+3+3+1+4+1=13</p> <p>27+13=40 (Risk Profile) ----- 5x40=200 (Quality Level and Risk Profile)</p>
<p>Step 8. Step 7 involves multiplying the ranking for each business function assigned at Step 1, the ranking for each business process assigned at Step 2, with the Quality Level and Risk Profile score arrived at for each record in Step 7. This figure will result in the Overall Priority Profile for each type of information, a score that will indicate the category of record for which it will be of the greatest strategic importance to ensure adequate record keeping systems and controls are in place because of the high overall importance of the business function and process with which the record is associated, the low satisfaction with the current quality of the records and information in relation to required quality and the high risk to the organization due to failures to meet quality requirements.</p>	<p>The following shows a worked example based on the data supplied above:</p> <p>Ranking for Commercial Credit = 5 Ranking for Credit Extension = 5 Quality Level and Risk Profile = 200</p> <p>5x5x200=5000 (Overall Priority Profile)</p>

Using the Results

The Overall Priority Profile provides an indication of the level of risk associated with a particular type of information or record, based on the significance of the business function and process in relation to the strategic objectives of the enterprise, the level to which the qualities required of the information/record to meet business requirements are being met, and the impact and probability of the risks associated with failure to meet information requirements.

Once the Overall Priority Profile has been determined, the management of an enterprise should then analyse whether the level of risk is acceptable. This task can be achieved by preparing a Risk Acceptability Matrix, as outlined by Barry J. Terenna.² The process involves assessing whether, for each of the risks associated with failure to meet a particular required information/record quality characteristic, the level of risk is acceptable or unacceptable.

If the level of risk is deemed unacceptable, usually because of high risk of loss even if there is a low probability of occurrence, steps must be taken to bring the level of risk to an acceptable point. Note that management should begin to address unacceptable levels of risk for information/records with the highest Overall Priority Rating. The work of lowering levels of risk can be achieved by reviewing the work done to identify the possible reasons why quality characteristics are not being met (at Step 5) and working out possible solutions to deficiencies in records and information systems and controls. The IRMT assessment tool can be used to assist management in the process of identifying areas of record keeping deficiency. Once solutions are identified, they should be implemented and their impact assessed and regularly monitored.

² Barry J. Terenna, "Risk Business: Proactive Strategies Help Reduce Records-related risks," *Infopro* 3.1 (March 2001): 28.

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